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ABSTRACT

This consumer's (or student's) guide for a home-study money management curriculum is divided into five units of study: (1) financial planning; (2) coping with credit; (3) protection through life insurance; (4) financial aspects of housing; and (5) making your money grow. Each unit contains fact sheets, charts, and quizzes. The fact sheets in unit 1 cover guidelines for personal and family spending, budget planning, and taking financial inventory. The fact sheets in unit 2 cover different forms of credit, how to establish a credit rating, how to handle debt, buying a car on credit, and how credit laws protect the consumer. Basic types of insurance policies and guidelines for choosing a policy which matches individual needs is covered in unit 3. Unit 4 discusses various factors involved in purchasing a house, alternative housing options, homeowner's insurance, and types of mortgages. Finally, the fact sheets in unit 5 discuss establishing a personal or family savings plan, different ways to save, different methods of investment, and related information and protection for the consumer. A teacher's guide (CE 023 727) accompanies this document. (BM)

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YOUR MONEY MATTERS

A Self-Study Program for Consumers

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CE023728

U S DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
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Denise M. Matejic

Outline and Instructions for Use of Units

Inflation and economic uncertainty have wrought havoc with many family budgets. A majority of consumers have difficulty making ends meet. Personal and family financial security, a goal for many Americans, seems harder and harder to achieve. Many consumers do not plan their finances and do not realize that strategies need to be updated from time to time to adjust to changing life-styles, age, income situations, and family structure throughout life. Many consumers do not make the most use of their credit, insurance, and saving dollars. Others are not familiar with legislation protecting them. Many people feel out of control and do not communicate enough with other family members about financial matters or do not share adequately in decisionmaking.

This home-study course (self-study program) has been developed to provide basic, comprehensive information on budgeting, credit, insurance, the financial aspects of housing, and saving and investing. Each unit was planned and designed as a self-contained learning package consisting of fact sheets and quizzes.

It should be noted that constant economic change and new legislation will require that the information provided in the fact sheets be updated periodically.

Efforts were made to make the information contained herein general enough to cover a wide geographic region. However, because of the diversity of state laws and interest rates across the country, this was not possible, so emphasis was placed on information relating to New Jersey.

1. The following is a summary of the various units in this publication.

UNIT I - FINANCIAL PLANNING

How to set guidelines for personal and family spending, how to plan a budget, how to take financial inventory and determine your net worth.

UNIT II - COPING WITH CREDIT

The different forms of credit, how to establish a credit rating, how to handle debt, buying a car on credit, how credit laws protect you as a consumer.

UNIT III - PLANNING FOR PROTECTION: LIFE INSURANCE

The basic types of insurance policies, how to choose a policy that matches your needs, provisions for extra protection and settlement options.

UNIT IV - FINANCIAL ASPECTS OF HOUSING

Factors in buying a house, pros and cons of buying a house, considering the costs, the purchase agreement and the role of the lawyer, closing costs and legal fees, alternative housing options, homeowner's insurance, types of mortgages and how to understand them.

UNIT V - MAKING YOUR MONEY GROW

How and how much to save, establishing a personal or family savings plan, different ways to save, saving versus investing, different methods of investing, information and protection for the consumer.

2. Instructions*

Included in each unit packet will be a cover letter, several fact sheets, and a quiz with return envelope.

a. Read the cover letter--it will explain what materials you should find in the unit packet. It will also tell you what date your quiz should be returned by.

b. Read the fact sheets and any charts and supplemental materials that accompany them.

c. Take the quiz. (You may refer to the fact sheets whenever necessary.)

d. Mail your completed quiz to us in the enclosed return envelope.

e. The next unit packet mailed to you will include the corrected quiz. If your quiz was returned after the scheduled date, it will be sent to you with the following packet.

3. Recognition*

A certificate of achievement will be sent to those participants who complete the five-unit course by answering and returning all unit quizzes.*

*Applicable only if this unit has been administered as a home-study course through a County Cooperative Extension Service Office. If not, please complete the quiz and Evaluation Questionnaire and retain for your own benefit and reference.

Individual Learning Units:
Unit I — Financial Planning

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YOUR MONEY MATTERS

Financial Planning - UNIT I FACT SHEET #1

GUIDELINES FOR PERSONAL AND FAMILY SPENDING

Examining personal and family needs, setting goals, communicating, and identifying values are the stepping stones to efficient financial management. But they must all be reexamined periodically since they will change as both you and your financial situation change.

If you are ready to work with your financial situation so that it will be able to work for you, take the following steps:

EXAMINE YOUR PERSONAL SITUATION

Are you planning any major changes this year, e.g., changing jobs, moving, buying a house, getting married, or entering the job market? How will these changes affect your financial needs? Ask yourself what special requirements there will be this year that might put an extra financial strain on your budget. Are there any special bills you are expecting during the year? Are you planning to purchase a car? To go on vacation? Are there any major insurance payments due during the year? How is your credit situation? Are the bills coming in faster than you are able to handle them?

When you examine your situation--your personal needs--you might find that major changes need to be made. If so, work to make those changes possible.

THINK ABOUT YOUR GOALS

Your short-term goals are the things you want to accomplish within one year while your long-term goals are to be achieved during the years to follow.

People who set goals for themselves are often more successful than those who don't--they know where they're going and what they want to achieve. Commit yourself. Write down your goals and their cost, if applicable. Think about how you can achieve them.

GOALS	No. 1	Cost	No. 2	Cost	No. 3	Cost
SHORT-TERM						
LONG-TERM						

COMMUNICATE WITH FAMILY MEMBERS

Other members in your family may have an influence on how money is spent and/or how much money comes into the family. You may have difficulty meeting your

personal goal because it conflicts with the goals of other family members. Therefore, you need to openly communicate with the other members, set priorities, and do some compromising.

There is considerably less argument--both about money and other subjects--in families where both husband and wife share in making financial decisions.* Communication and joint decision making are particularly important regarding:

the budget	-	setting up a realistic savings and spending plan and sticking to it.
savings	-	how much to save; when to draw on it; who keeps a savings account in whose name; and how much should be kept in a joint savings account.
consumer credit	-	how much credit to take on; where to borrow, at what interest rate; who is responsible for making payment; what impact does the credit payment have on the total budget.

These are just a few of the items which should be discussed and handled in an open and honest way.

DISCOVER WHAT INFLUENCES YOUR FINANCIAL DECISIONS

Let's talk about the importance of our own value system as an influence on our spending behavior within the family. When you examine your personal finances, think and talk about your attitudes and those of other family members regarding money. Do you shop for food compulsively every day of the week or do you prepare a list and follow a certain budget? When you go shopping, is it because of a decision based on needs or do you spend because you are bored or unhappy? When holidays arrive, do you tend to spend more than you can really afford because you want to give love in the form of gifts?

Think about the attitudes of your family members including your parents and your in-laws, because they certainly influence your life. The way your parents reacted to your spending behavior, how money was handled in your home when you were young, the values held in the community where you grew up, and the people surrounding you--all these have an influence on how you spend.

Understanding your own and your spouse's reasons for spending will increase your ability to handle money matters effectively.

* As found in the survey "The American Family Report" conducted by Yankelovich, Skelly & White, 1974-5.

YOUR MONEY MATTERS

Financial Planning - UNIT I FACT SHEET #2

BUDGET PLANNING

To achieve a balanced budget, take the following steps:

KNOW YOUR NET INCOME

Know and write down your net income--the amount of money that comes into the household after taxes, social security payments, and other items have been deducted.

KNOW HOW AND WHERE YOU SPEND

Go over your canceled checks, receipts, department store financial statements, bank statements, etc., and try to remember what your past purchases were.

Start to write down all your daily expenditures. Take a red pencil and circle all the purchases which you feel were unnecessary.

Examine your spending item by item at least once every week or two. Decide where you spend compulsively or without planning, and make necessary changes for the future.

KNOW YOUR IRREGULAR FIXED EXPENSES

If you have a payment of several hundred dollars due, divide that total by the number of paychecks you will be receiving.

It is better to put aside small sums of money than one large lump sum. Let's say that your car insurance is due August 1st and is $416 for the year. If you figure it in your paycheck per week, you would only need to put aside $8 a week for this insurance ($416 ÷ 52 = $8) and then these $8-sums would be budgeted throughout the year. The money can be put in a checking account or, better yet, in a special savings account set aside for such purposes.

KNOW YOUR REGULAR FIXED EXPENSES

Regular fixed expenses are rent or mortgage payments; insurance payments, including automobile, life, property, health, etc., (if you set them aside regularly); installment payments; emergency funds; and any other fixed expenses you have. One good way of dealing with all expenditures is to calculate them per paycheck period, though some people prefer to do it on a monthly basis.

KNOW YOUR FLEXIBLE EXPENDITURES

Flexible expenditures include food expenses; household supplies, including repairs and maintenance; clothing and personal expenditures; medical and dental costs; spending for recreation; transportation costs; utility charges; any charge account payments you have to make; etc.

The following is a helpful tip regarding flexible expenditures: hobbies, sports, and entertainment can cause large expenditures. These items might not have to be paid for all at one time. You might want to plan for your vacation over the whole year and again divide it by the number of paychecks as we did before with the car insurance payment. This way it can be carried as a "regular" expense.

Once you have written down all your fixed and flexible expenses, deduct them from your net income. What you have left are the monies you can put aside for savings or investments to meet future goals, or for any other personal goal you may have.

Net income (take-home pay)	$_____
Less total expenditures (fixed and flexible)	_____
Money to do with as you please (save, spend, etc.)	_____

By taking the steps above, you can make sure that you will manage your money instead of letting the bills manage you.

TIPS FOR BUDGET PLANNING

Using Checks

Pay most of your bills by check. This will help you keep better track of your expenditures.

Write down the purpose of each check. Add an asterisk (*) if you think that the amount might qualify as a tax deduction at the end of the year.

Identify on the check the category into which this expense falls--for example, education, business, church, contribution, child care, interest portion of a loan or credit.

Keep checks returned by mail in two different envelopes. One envelope will hold information for general reference and record-keeping purposes. The second envelope will hold those checks that are related to tax deductions. In this second envelope, also keep track of those expenditures for which you don't have a check. You do this by enclosing a receipt, slip of paper, etc.

Watch Your Daily Spending

Many people have found that a simple sheet of paper, where one can write down day-to-day spending, helps to keep control over expenses. Many times we spend $1.50, $1, 50¢, or smaller amounts of money and we don't even realize it. If we keep a record of our spending, it makes us aware of the leaks in our budget, and the habits we may wish to change.

Keep in mind that the modern way to budget is not just bookkeeping and record keeping and should not be considered a difficult chore or a nuisance. The modern way to budget is to program your dollars according to your own preferences and needs.

Be aware that you are constantly confronted with choices which require you to make decisions. Be also aware that once you allocate funds for one item, you may have to do without something else. For example, a vacation or a piece of furniture will not only cost you dollars, but may force you to postpone the purchase of a car.

Chart Your Financial Course: Anticipate Expenditures and Incoming Bills

A budget plan will serve you better if you're able to anticipate expenditures--especially if these expenditures are payments that occur at irregular intervals during the year, or credit card payments that are due at different times of the year.

Examples of anticipated expenditures are insurance (due August and January), tuition (due August and December), air conditioner repair (due next summer), Federal Income Tax (due April 15), magazine subscriptions, club dues, and vacations.

Table 1 (page 4) will help you analyze your anticipated expenditures for the next 12 months and give you a clear picture of how your payments are distributed. First, determine the monthly expenses for an item and enter them in the appropriate columns. Add horizontally the monthly expenses to find out the yearly expense. By dividing this yearly total by 12, you will get the average monthly expense for this particular item.

Next, vertically add up all your monthly expenses to determine your total anticipated expenditures per month. Then horizontally add up these monthly totals, divide them by 12, and you will have the average anticipated expenditure per month.

A bill reminder (page 5) is another useful tool in budgeting. It serves as a record of your unpaid bills as well as a checklist of payments and outstanding balances.

Table 2 is a bill reminder that you can fill out and save. If used regularly, it will keep you up-to-date on all your bills.

Anticipated Family Expenditures Within the Next 12 Months

Directions: Fill in the amounts of anticipated expenditures below as best you can. An example is provided:

Item	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	*Add monthly figures	**Divide by 12 for average monthly amount
Vacation							$500					$100	$600	$50
Total Amounts														

Example
* $500 + $100 = $600
** $600 ÷ 12 = $50
The $50 is the monthly amount needed to be set aside.

Bill Reminder

DIRECTIONS: Fill in the information on bills the day they arrive and when payments are made. Always include unpaid balance if applicable.

DATE RECEIVED	TYPE OF BILL	AMOUNT OF TOTAL BILL	DATE PAYMENT DUE	DATE PAID	AMOUNT PAID	NEW UNPAID BALANCE*	COMMENTS

* Amount of total bill minus amount paid.

PROGRAMMING MY $'s

Budgeting means programming your $'s. This means having control over your expenditures by:

- Reviewing past spending periodically.
- Recording expenditures each pay period.
- Projecting future spending.

Here's what you should do:

Step 1. Before you program your dollars, write down your goals. Be very specific. (TV this year, car next year.) Include all family members in the discussion. Find out how they think the income should be allocated. Individual members are usually surprised at the other members' choices and preferences. Writing down goals and discussing them will help each member understand and tolerate the desires of the others.

Step 2. List your day-to-day expenses--especially if you feel your financial situation does not allow you to live up to your expectations. (See checklist of day-to-day expenses.)

Step 3. Start with your net income (take-home pay) and deduct all fixed expenses you incur under your current standard of living. The amount you have left over is what you have to live on. If you cannot make ends meet, then you would have to lower your fixed expenses or supplement your income.

One purpose of setting up a budget plan is to meet individual or family goals and needs. Write down your current and anticipated monthly expenses on the following list as they fit your spending pattern and your situation and needs. Using this checklist will help you identify your personal expenditures and analyze your spending pattern for comparison with past and future expenses. You can also make a copy of this chart, include it in a three-ring binder, and use it to compare current monthly figures with past expenditures. Savings can result if you cut down on your flexible expenses.

CHECKLIST OF DAY-TO-DAY OR MONTHLY EXPENSES*
(including what you set aside for savings)

SHELTER:	
	Rent or mortgage payment
	Property tax, insurance
	Fuel (heat)
	Gas & electric
	Water, sewer & garbage
	Maintenance and repair
	Other
FOOD:	
	Groceries, other food supplies
	Meals
	School lunches, business lunches
	Milk
	Bakery or delivered goods
	Other
CLOTHING:	
	Normal needs of all members of family or self
	School clothes, office clothes
	Seasonal
	Laundry & dry cleaning & repair
	Special events, sports clothes
	Other
HOUSEHOLD EXPENSES AND SUPPLIES:	
	Cable TV
	Tools
	Regular repairs
	Towels, linens, etc.
	Cleaning supplies
	Telephone
	Other
TRANSPORTATION:	
	Gas & oil
	Auto repairs, tires
	Automobile insurance, license fee, inspection, etc.
	Public transportation, parking
	Other

MEDICAL:	
	Doctor
	Dentist
	Prescriptions & drugs
	Glasses
	Insurance
	Other
PERSONAL EXPENSES:	
	Self, e.g., cigarettes
	Spouse, e.g., tobacco, office-related expenses
	Children: school costs, allowance, etc.
	Beauty care, toiletries
	Recreation (vacation, sports)
	Hobbies, pets, gifts, music lessons, etc.
	Movies, plays
	Home and other entertainment
	Other
MISCELLANEOUS:	
	Newspapers, magazines, record clubs, other
	Organizations (union fees, dues, clubs, other)
	Gifts (birthday, Christmas, other)
	Equipment
	Lessons
	Babysitting
	Alimony/child support
	Alcohol, other beverages
	Social Security
	Income tax, other
	Other
EDUCATION:	
	Tuition
	Books
	Supplies
	Magazines
	Lessons
	Equipment
	Other
DONATIONS:	
	Church
	All other

INSURANCE:

Life insurance, health, hospitalization
Retirement fund
Other

SAVINGS:

*Adapted from the Madison Consumer Credit Counseling Service's Forum on Budgeting, Madison, Wisconsin.

PROGRAMMING MY $'s

Setting up a yearly or monthly budget

This chart is an additional tool which can aid you in setting up a yearly or monthly budget. Your budget is a personal guideline for spending. By organizing your expenses into categories, you can be on your way to "programming your $'s."

1. TOTAL INCOME (salary, wages, interest, dividends, social security, and other) _____

Less all withholdings (See (a) on next page) _____

TAKE-HOME PAY . . . . . /_____/

2. FIXED EXPENSES (b)
Rent or mortgage payments
Insurance payments:

- . Automobile
- . Life
- . Property
- . Health, hospitalization

Installment payments (c)
Emergency fund (d)
Any other (e.g. Food stamps) _____

FLEXIBLE EXPENSES (e)
Food (f) _____
Household supplies (repairs, maintenance) _____
Clothing and personal _____
Medical, dental costs _____
Recreation (g) _____
Other (h) _____
Cost of transportation(i) _____
Utilities (j) _____
Other charge accounts (k) _____
Any other (See checklist) _____

TOTAL EXPENDITURES NOW . . . . . /_____/

3. TAKE-HOME PAY $_____

Less TOTAL EXPENDITURES $_____

AMOUNT WHICH CAN BE SET ASIDE FOR SAVINGS, REALIZATION OF FUTURE GOALS, INVESTMENTS, OR JUST FOR "FUN".
(1) /_____/

_____

GOALS MY ___ ___

Short-term:

Long-term:

_____

MANAGE YOUR MONEY INSTEAD OF LETTING THE BILLS MANAGE YOU...THE CHOICE IS YOURS.

NOTES ON "PROGRAMMING MY $'s"

(a) Income tax, social security, hospital insurance, credit union withholdings, union dues, and any other automatic deduction from wage or salary.

(b) Total all known fixed expenses that you will incur over the next year. Divide the total into the number of paychecks you will be receiving. It's better to allocate small sums than one large lump sum to pay for the expense. Example: Car insurance is due August 15--put aside $8 per week for the insurance rather than pay $416 at one time.

(c) When you take on an installment debt, you sign a contract. This is a legal document and is binding. The installment payments are then fixed expenses. The amounts are predetermined in size and date.

(d) Emergency fund is listed under fixed expenses as a measure of protection so that you have something to fall back on in case a need arises unexpectedly.

(e) Calculate for each paycheck period or per month or year.

(f) If you purchase food stamps, put the exact amount under fixed expenses. Only additional cash outlay is recorded under flexible expenses.

(g) Hobbies, sports, entertainment, vacation, etc. You might want to divide the money planned for your vacation over the whole year and carry it as a regular rather than flexible expense.

(h) Social obligations, gifts, charities, repairs, maintenance, church, Christmas club, vacation club, etc.

(i) Include car, bus or train, license, registration, gasoline (cash or credit), and auto maintenance.

(j) Telephone, gas, electricity, heat, water.

(k) Whether you use credit cards or buy on a regular 30-day charge account or revolving charge account, you can adjust the payments more or less as they fit into your budget. Include the payments you want to make in your flexible expenses under the corresponding item--children's outfits under clothing; gasoline under transportation. If you prefer, combine all charge accounts and list under (k).

(l) Treat yourself to an evening out, buying something that you have wanted for a long time, etc.

YOUR MONEY MATTERS

Financial Planning - UNIT I FACT SHEET #3

TAKING FINANCIAL INVENTORY

HOW MUCH AM I WORTH?

Taking financial inventory means determining how much you are worth in dollars and cents. It means calculating your financial net worth. This is a simple procedure which can bring you great benefits if followed regularly. It is a good idea to calculate your net worth once a year, or more often if your personal situation should change.

One benefit of going through these calculations is that you will have an exact picture of your financial situation at a particular point in time (e.g., December 31 of a given year). This gives you a means of comparison for the next year. This comparison will help you in making major personal decisions not only in relation to personal and financial management, but in relation to long-term personal and career goals.

Another benefit of going through this procedure regularly is that you will have records of proof for insurance claim purposes, if you ever need them, and evidence of your assets at the time of their purchase. It is considered a good idea to save receipts, and to take pictures of all your valuables. Keep them with your annual financial net worth statement in a safe place.

A third benefit is that banks and lending institutions may require a financial net worth statement before loans are given. If you take your financial inventory and have this information readily available, it will be much easier for you to get a personal loan or a mortgage for a house.

STEPS IN TAKING FINANCIAL INVENTORY

Liquid Assets (That which can be readily converted into cash)

Take out your checkbook, your savings book, and a pencil and paper. Write down the monies you have right now in your checking account and in your various savings accounts. Do you own any stocks or mutual fund shares, or U.S. Government savings bonds Series E? These assets should also be listed here. All of these assets are liquid, which means that they can be readily converted into cash. (See also the section entitled "My Liquid Assets" in the supplement.)

Other Assets (Possessions of value)

Also of value are the things around you--furniture, rugs, stereo system, radio, photographic and other equipment, paintings, jewelry or furs, etc.

It doesn't matter what you paid for them several years ago because these values have since changed. You need to do a little comparison shopping to come up with their market value. Market value is the price you could get for those items if you were to sell them today. Don't forget your car and your house, if you own one. They have a market value, too. Write down the value of all the items that you own.

Liabilities (That which you owe)

Now make a list of your liabilities--everything you owe. You have short-term liabilities--those bills that you must pay right now (e.g., phone, dentist, department store); intermediate-term liabilities, which must be paid within a year to 18 months (e.g., photography equipment for a darkroom, typewriter); and long-term liabilities, which must be paid over a number of years (e.g., installment credit you have outstanding on furniture, car loan payments you have to make to the bank, the mortgage on your house).

Net Worth (How much you are worth financially)

Now that you have written down all your assets and all your liabilities, subtract what you owe from what you own. The amount that you come up with is your financial net worth at a particular point in time. This statement or form is also called a personal balance sheet.

The special value of this exercise for any individual or family is that it provides a tool (a personal balance sheet) with which to compare one's financial situation from one year to another. If your financial net worth does not increase from year to year as you would like it to, look into the situation and see why. Have your liabilities increased more than you realized? You may have started to deplete your savings and may not have been aware of the situation. You now have a tool to get a handle on your total financial situation, and manage your money matters more efficiently.

Make a copy of the form "Your Financial Inventory" (next page); then take your financial inventory and calculate your net worth. Next, date the document and keep the copy in a safe place. Also, attach photographed receipts of valuable items--furniture, jewelry, etc.--if you can. Compare this inventory with next year's inventory to see how you fare.

YOUR FINANCIAL INVENTORY

A general practice for business, educational, and other organizations is to complete an annual balance sheet and to conduct a regular inventory. They do this to check on their financial status and on progress made (or loss incurred) during the preceding year.

Individuals and families should consider themselves as economic units and should also include such an examination in their "annual checkups."

YOUR ASSETS

Key: (a) - balance (b) - market value (c) - cash surrender value (d) - current redemption value	Value Today Date ____	Value 1 Year Later Date ____	Value 2 Years Later Date ____
WHAT DO I OWN?			
My Liquid Assets (readily convertible to cash)--			
Cash			
Bank Accounts:			
Checking (a)			
Savings (a)			
Savings bonds (d)			
Life insurance (d)			
Bonds:			
Government (b), Municipal (b)			
Corporate (b)			
Stocks (b), Mutual funds (b)			
Miscellaneous:			
Prepaid taxes			
Prepaid insurance			
Other (gold bullion, silver bullion)			
My Other Assets--			
Cash value of company retirement fund (belongs to you whether you stay with company or not)			
Cash value of private pension plan			
Cash value of profit-sharing plan			
Home (b)			
Other real estate (b)			
Vacation property			
Cars (b)			
Personal property (b)			
silverware, jewelry, furniture, large appliances			
Other personal property (b)			
stamp collection, coin collection			
Real estate held for income (b)			
Investment in antiques, art collection			
Debts others owe you			
Other			
Total Assets			

YOUR LIABILITIES

		1 Year Later	2 Years Later
	Date____	Date_____	Date_____
WHAT DO I OWE?			
My Liabilities (debts)--			
Current debts			
charge accounts, credit cards			
real estate taxes, personal taxes due			
Installment debts (balance due) on furniture, TV, appliances, car, etc.			
Mortgage debts (home and other real estate)			
Miscellaneous (loan on life insurance policy, small business loan due, etc.)			
Other debts			
Total Liabilities			

YOUR NET WORTH

How Much Am I Worth?

Net worth equals total assets minus total liabilities

Total Assets
\- Total Liabilities
= NET WORTH

This is a preretirement checklist:

I

List your expected income after retirement:

- income from social security* _____
- company retirement benefits _____
- income from annuities, rents _____
- income from savings _____

Total per month _____

II

Extra protection in case of death

- face value of life insurance policies _____
- remember, if there is a loan on the policy outstanding, the amount of the loan should be deducted from the face value of the policy _____
- social security payments to qualified survivors** _____

III

Disability protection:

- private disability insurance _____
- social security disability payments (including SSI)** _____

IV

Other _____ _____

*For information on social security, check personally with your local office. Social security regulations are complex and each case is different. This includes the Supplemental Security Income (SSI), which is now available to those who qualify (over 65, disabled, blind, with limited resources, etc.).

**You can also check your social security record and request a statement of your earnings.

QUIZ FOR UNIT I -- FINANCIAL PLANNING

Dear Friend,

This quiz covers Fact Sheets 1, 2, and 3 of Unit I -- Financial Planning.

After reading the fact sheets, you are ready to complete the quiz. Feel free to refer to your fact sheets whenever necessary. Please follow the quiz instructions and return the quiz in the return envelope.*

Name _____

Address _____

_____ Zip _____

Instructions:

This quiz contains two types of questions, true-false and multiple choice.

True-false: Circle "T" if the statement is true and "F" if the statement is false.

Multiple choice: Select the best possible answer and write the corresponding letter in the blank provided.

1) ____ Which of the following may influence your financial decisions?

a. parents' attitudes
b. your mood
c. your spouse's goals
d. your children's needs
e. your decision to change jobs
f. all of the above

2) T F Before setting up a budget, you should understand family values, think about your goals, examine your personal situation, and communicate with other family members, if applicable.

3) T F One purpose of setting up a budget plan is to meet individual and/or family goals and needs.

4) T F Net income is all the money that you earn before taxes and other deductions are subtracted.

5) T F Paying bills by check can be a helpful tool for record-keeping purposes.

6) T F One way to meet large irregular payments, such as car insurance, is to break down the large sums into small sums which can be set aside until the payment is due.

7) T F Rent or mortgage payment is considered a flexible expense.

8) T F Liquid assets are easily converted into cash within a short period of time.

9) ____ Financial net worth is:

a. total assets minus total liabilities
b. liquid assets minus other assets
c. original price minus market value
d. liabilities minus liquid assets

10) ____ It is possible to control your money rather than having your money control you by:

a. taking financial inventory
b. understanding individual and/or family values, goals, needs, and priorities
c. developing a workable budget
d. all of the above

We would appreciate the following information to help us improve our service:

Have you used or shared any of this information from the fact sheets or do you plan to do so?*

Yes _____ No _____

If yes or no, please explain.

*Applicable only if this unit has been administered through a County Cooperative Extension office. If not, please complete the quiz and retain for your own benefit and reference.

Unit II — Coping with Credit

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YOUR MONEY MATTERS

Coping With Credit - UNIT II FACT SHEET #4

WHAT IS THIS PRIVILEGE CALLED CREDIT?

WHAT IS CREDIT?

Credit is defined by the dictionary as "belief; confidence; trustworthiness." Credit is a privilege for those who are willing to assume the responsibilities it carries. Buying on credit enables people to have what they want when they want it, even if they do not have the cash on hand.

But credit can be a mixed blessing. Impulse buying or the ease of saying "charge it" can get the best of you, creating a buying habit that gets out of hand and generates many bills.

How you spend money and how many credit cards you use is your personal decision. Analyze your personal or family needs realistically. Scrutinize them and set priorities. Make an overall financial plan that is tailored to your circumstances.

Consider your credit situation when you devise an overall savings and spending plan. How much credit (debt) you can safely assume will depend on:

- The size of your family--its medical, clothing, food, housing, and school expenses.
- The stability of your job--whether it is secure or not.
- The size of your income.
- Whether additional payments will fit into your overall budget and still leave some cushion for an emergency--consider housing, transportation, insurance, current debt, and other financial obligations you may have.

There is a rule of thumb which says:

Consumers should not have more than 20% of their take-home pay outstanding in consumer credit (not counting home mortgages). Some say not more than 10-15% should be outstanding, and this amount should be repayable within 24 months. Nowadays this will not always be possible, especially in the case of car loans. But the guidelines should at least be considered.

TIPS:

Do not use credit if you are already finding it hard to pay your bills at the beginning of each month. If you find yourself making payments on your mortgage later and later every month, taking on more debt is not for you.

Try to have three months' salary in the bank to fall back on should you need it. Remember that when you buy on credit, you have to pay finance charges (interest) for the privilege of buying now and paying later.

WHAT PAYMENT OPTIONS ARE AVAILABLE?

Paying Cash -

There are certain obvious advantages to paying cash. The price is paid in full at the time of the purchase; there is no need to keep up with monthly payments. With cash and carry, there are no further contracts to comply with. The buyer does not have any finance charge or interest added to the purchase price. This can be quite a saving in the long run. Also, the goods are yours and you don't owe anyone anything.

Three disadvantages might be that you have to pay the total price all at once. This is fine if you can afford it. You might have some difficulty exchanging or returning merchandise, but it is possible to do so in some cases. Finally, the seller might feel less inclined to service cash customers in an efficient way.

Use of cash is determined by your budget, and how you prefer to save and spend.

Buying on Credit -

What are the Advantages of Buying on Credit?

. Buying on credit can be a form of forced savings. An individual or family may find it easier to pay off a debt in regular amounts than to save the money first and then make the purchase. Because of the high cost of credit, this may may not be the ideal way of managing one's resources, but it's better than overspending and not saving anything.

. Charge accounts and credit cards are convenient. There's no need to carry large amounts of cash.

. Buying on credit gives you the use and, in some cases, the ownership, of goods or services for which you cannot afford to pay on the spot. You may need or want the item now but lack the necessary funds.

What Are Some Disadvantages of Buying on Credit?

. You may be tempted to buy more than you really need, just because it's easy to say "charge it."

. It is easier for you to be lax in making choices. Maybe you don't need a color TV, and it's really too expensive, but because on credit it's only $10 a week, you buy it, forgetting to comparison shop.

. Individuals or families who habitually buy on credit often pay an additional charge on everything they purchase--adding as much as 18 percent or more to the cost of the goods or services.

. You may have unexpected needs or emergencies which will be hard to pay for if you've tied up your money in credit payments.

COMPARE FORMS OF CREDIT

Credit Cards and Charge Accounts	Installment Credit
- No downpayment is required.	- A downpayment is usually required.
- Application for basic credit is made and, when accepted, the buyer need only sign a receipt in return for the goods at the time of each purchase. You will be sued if you don't pay. You then have to pay what you owe plus court costs.	- Buyer signs a closed-end, conditional sales contract that is a binding legal document. Nonfulfillment of any point in the contract can result in repossession or a lawsuit.
- No finance charge if account is paid within the stipulated time after receipt of monthly statement (usually 30-60 days after billing date). Payment can be made in a flexible way. Usually there is a minimum monthly payment. In the case of a revolving charge, there will be an initial agreement between the buyer and seller on the credit ceiling (the limit up to which the consumer can charge or borrow at any given time).	- Amount of each installment payment is predetermined and included in the contract. Usually payments are made at regular intervals (weekly or monthly) over a period of 12, 24 or 36 months. Finance charge is always added to the purchase price and will be included in the regular payments.
- Used for purchase of small consumer goods and services. Convenient. You need not carry large amounts of cash. Makes it possible to take advantage of sales.	- Generally used for purchase of major items, e.g., TV, furniture, car, appliances, etc.
- Buyer has possession and use of goods and is legal owner.	- Buyer has possession and use of goods, but seller retains title and is the legal owner until the last payment is made.
- Merchandise can usually be returned or exchanged easily.	- Merchandise cannot be returned or exchanged. The contract cannot be cancelled.

- Servicing of merchandise is usually easier for "preferred customers" who have charge accounts or credit cards.

- Short-term convenience is nice. If used carefully, it should not cut too far into your future income.

- Servicing of merchandise is usually easily obtained.

- Takes away from future income because of monthly payments due for predetermined length of time.

Before you decide which form of credit to use or whether to use it at all, inform yourself thoroughly about the different types of credit and the options available. Then you can make a responsible choice that will fit within your budget.

YOUR MONEY MATTERS

Coping With Credit - UNIT II

FACT SHEET #5

HOW DO I ESTABLISH A CREDIT RATING AND WHY IS IT SO IMPORTANT?

YOU AND YOUR CREDIT RATING

Whether you are single and just stepping into the labor force, newly divorced, widowed, or happily married, it is important for you to establish a good credit rating. Later it will enable you to qualify without difficulty for a loan when you need it most. Keep records of financial transactions and act responsibly. If you cannot pay a debt, speak to the lender and negotiate.

There are many places where you can apply for loans or credit--banks, small-loan companies, credit unions, and retail stores--but be aware that costs vary from place to place. Before making a final decision about applying for credit or a loan, shop around and decide which lender offers terms that best suit your own situation.

ESTABLISHING YOUR CREDIT RATING

There are several ways to establish and maintain your own credit rating. Since individual needs vary, you may find that some are more helpful to you than others. You can pick and choose one or more of the suggestions below which best apply to your circumstances.

- If you are divorced, taking on responsibility for jointly incurred debts will indicate that you are financially dependable.
- Get a full- or part-time job. After you have worked for several months, take steps to establish a good credit rating. Be aware that you may have to be employed for 3 to 12 months before you can qualify for a cash loan or other types of credit, depending on the lender.
- Open a checking account in your own name. If you are married and have a joint account with your husband, open a second account under your name only. Be sure not to overdraw as this information will be recorded and will adversely affect your credit rating.
- Apply for a "ready check" or "overdraft" account with your bank in your own name. You don't necessarily have to use it, but the fact that you have been accepted will be recorded in your credit file and will be to your advantage if you later need other types of credit.
- Apply for a single-purpose credit card (e.g., department store, gasoline) even if you initially need a co-signer. Later you can make a change and have the account in your own name.

. Apply for a charge account in your name with a local store. If you are married, be sure you have your own account number and are not just listed by your name under your husband's account number. Otherwise the record of your payments will go into his credit file, not yours.

. Apply for a multipurpose credit card, such as American Express, Carte Blanche, and Master Charge. Again, you don't necessarily have to use it, but the fact that you have been accepted will be to your advantage when you apply for other types of credit.

. Borrow cash from a bank or credit union. You will probably need a co-signer initially. If you apply for an installment loan, make a large downpayment and then pay off the loan according to the terms of your contract.

. Pay for the purchase of furniture, a car, or a major appliance on an installment plan through the dealer if you don't want (or can't get) a direct loan from a credit union or bank. You will probably need a co-signer the first time you apply for such credit and pay a higher interest rate, but you will be offered convenience and service in return. And the record of how you pay off your loan will go into your credit file.

. Borrow money from a consumer finance company if you need "instant" funds or don't qualify for a lower cost loan. These companies take greater risks and usually offer faster service than do banks or credit unions, but they must charge a higher interest rate to protect themselves.

WHAT IS A CREDIT ANALYSIS?

The decision to grant or not to grant credit and loans is based on sound credit analysis. Your application and interview will furnish most of the needed information to the lender.

In a credit analysis, what will be considered?

. Your personal qualifications such as character and reputation.
. Your income, which measures your ability to repay, will be checked for:
  Size--Can it "carry" the loan you want?
  Stability--Is your income reasonably assured and coming from a reliable source?
. Your overall assets--In other words, what you own.

. Your profession--What type of job is it? Some are considered more "risk-prone" than others in terms of loan delinquency and nonpayment. How steady a worker are you? How long you have been on the job and whether or not you are a "job-hopper" will be considered.

. Your credit rating--How prompt were you in previous payments? What does your credit report say about you? How do you stand as far as your proved "willingness to repay" is concerned?

. Your type of residence--Do you own or rent? How long have you lived in your current location? (Frequent house-hopping may be held against you.)

. Your purpose for borrowing--How sound is it? Does it fit into long-range goals and plans, or is it just a whim?

These and other factors are weighed by lenders when they decide whether to accept or reject your application for a cash loan or other type of credit.

For example, assume that two people are applying for similar loans. Several factors would be weighted in each case.

Person A: Has an income of $16,000.
Held three different jobs last year.
Has several sizeable charge accounts with payments overdue.
Changed residence three times in the last two years.

Person B: Has an income of $10,000.
Held one job for the last five years.
Has only a small outstanding debt.
Lived in the same residence for the last six years.

Although Person A's income is larger, it would probably be concluded that Person A is a greater credit risk than Person B, who is more dependable.

At first you may need a co-signer to obtain a loan or credit. Pay off the original debt promptly and then reapply for credit and insist, on the basis of your proven income and willingness to repay, that you do not need a co-signer.

Also realize that if you are asked to co-sign the note for a loan, you should think it over carefully! You will become responsible for the repayment of a loan, and you will have to pay off the loan should the person you signed for default. Be sure you are prepared to take on such a financial burden.

WHO ARE THESE PEOPLE WHO KNOW SO MUCH ABOUT MY CREDIT RECORD?

Credit-reporting Agencies

CREDIT BUREAUS are reporting agencies that receive and file records of credit transactions. If you are over 18, the chances are that you have used credit sometime. Each use is recorded in your file at a central credit bureau. When you apply for credit or a loan, the lender usually asks this bureau for a report on you. The lender will want to know how promptly you have repaid other loans. Your credit file will show your record of payment (any overdraft or default), and will indicate whether you might be a good credit risk.

Greater mobility of consumers, changing family patterns, increased standards of living, and consumers' demands for more and quicker access to goods and services have increased the need for computer-stored, reliable information about individuals.

Credit bureaus do not make decisions, they only process information and make it available to credit grantors. The lenders then make decisions according to their individual standards, and based in part on the information the credit bureau has given them. The final decision will be influenced by your paying habits, how much debt you have outstanding, minimum income requirements, your length of time on the job, your residence, your type of job, and other similar considerations.

Who Are the Customers of Credit Bureaus?

By law, only those who have a legitimate business need for such information, e.g., department stores, banks, savings and loan institutions, retail merchants, and mortgage companies.

Reports on consumers and information services can be divided into two categories. Some companies issue both types of report, some only one.

1. Credit reports deal strictly with financial information and are issued by credit-reporting agencies.

2. Investigative consumer reports to insurance companies, potential employers, and others contain information dealing with personal habits and behavior, character, and general reputation. They are issued by investigative reporting agencies.

What Information Does My Credit File Contain?

Your credit file contains records of credit transactions you engaged in: opening or closing an account, making prompt payments or being consistently late, fulfilling a contract or defaulting. Information from the public records, such as a contract suit, a judgment, a tax lien, or a bankruptcy, is also recorded in your file.

In order for you to take advantage of the credit market, it is important that you have a good credit rating. The better your financial record, the better your chance of qualifying for credit, charge accounts, and loans.

YOUR MONEY MATTERS

Coping With Credit - UNIT II FACT SHEET #6

HELP! I'M IN DEBT! WHAT DO I DO?

Increased cost of living, buying now and paying later, greater expectations and higher standards of living, and sloppy buying habits have all contributed to the fact that an increased number of individuals and families are finding themselves in financial difficulty.

If you are in debt, feel that things are getting out of control, or feel that you are heading for bankruptcy, don't despair. There are still several choices available to you.

. Getting consolidation loan--from a bank, credit union, or finance company.

. Using a consumer credit-counseling service.

. Speaking to your creditors yourself.

CONSOLIDATION LOANS

With this type of loan, you take out one large loan to pay off your various outstanding debts yourself. The single payment on the new loan is smaller than the total of the other payments each month and it is easier to keep track of one debt.

A consolidation loan stretches out your payments over a longer period of time, however. You still pay the whole amount before you are debt-free, and the longer time involved means that you pay more interest.

The danger of a consolidation loan is that you might forget how much you owe overall, and think that you can take on new credit obligations because your existing payment seems so "small."

CREDIT-COUNSELING SERVICES

These agencies help individuals and families that are in deep financial trouble to budget their money. Many of the counseling centers are financed through the lending industry and the charge to the consumer, if any, is nominal. Be wary if a regular charge--a percentage of your debt, for instance--is involved.

A counselor will study your financial situation and make suggestions for better money management. If necessary, he/she will speak to the lenders and explain your situation. Often he/she will be able to get agreements from these lenders to pay off the loan in smaller installments over a longer period of time.

Working with a consumer credit-counseling service has many advantages. It can:

. Lessen your worry.

. Help you avoid harrassment by creditors.

. Teach you discipline and regularity in paying bills.

. Prevent bankruptcy.

When you decide to use a counseling service, you will sign a contract, usually covering two years. You agree not to take on any more debt and to send all credit cards back to the creditors. A money management plan is drawn up and payment arrangements are made with your creditors.

If necessary, the counseling center will make your payments for you from an agreed-upon sum and send them every month. If you fail to follow through with your regular payments, the program will be discontinued.

SPEAKING TO YOUR CREDITORS

Speaking to your creditors yourself and renegotiating your debts will require effort on your part, but it might be your best option. You will need to:

. Know your dependable income.

. Know your fixed, predictable expenses--rent, insurance, etc., including payments on debts.

. Estimate flexible expenses--food, recreation, clothing, transportation.

. Plan for medical care and for possible emergencies.

When you know what you can and will pay, speak to the creditors about making your payments smaller and extending the loan over a longer period of time. Most will agree to make adjustments if you show that you are sincere and willing to pay.

Be sure that you have any new agreement in written as well as verbal form, and then stick to it. Remember, your record of financial responsibilities will influence your ability to get credit in the future.

The worksheet "Evaluate Your Credit Status" on the following page will help you in analyzing your current debt situation.

EVALUATE YOUR CREDIT STATUS

This worksheet will help you analyze your current debt commitments (not counting your mortgage). The average family should not commit more than 20 percent, 17 percent is better, of total take-home income to loan payments. If your family is larger than average, you may need to keep loan commitments even lower. Fill in all blanks that apply to your current situation.

PURPOSE OF LOAN	AMOUNT STILL OWED	SOURCE	APR	MONTHS LEFT TO PAY	MONTHLY PAYMENT
Car					
Checking Account overdraft plan					
Credit Cards					
Educational debt					
Home Improvement					
Installment loans (bank, stores, credit union, finance co.)					
Passbook Loan					
Store charge accounts					
Other (Insurance, airline travel, etc.)					

* Annual percentage rate

Total monthly payments $_____

Monthly take-home income $_____

Divided by 6 equals $_____

If your total of monthly payments is larger than 1/6 of your monthly take-home income, you have about as much credit debt as you can easily carry with your income. Before using more credit, try to eliminate some of the debt shown above, especially those with the highest APR. 1/6 of your monthly take-home income is about 17 percent.

(Adapted from "Consumer Views", May, 1975, First National City Bank, NY)JR75
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YOUR MONEY MATTERS

Coping With Credit - UNIT II FACT SHEET #7

BUYING A CAR ON CREDIT?

Before You Sign on the Dotted Line. . .

Do you know that owning a car can cost as much as 20% of your total budget? If you take out a loan to pay for the car, your creditor will charge you for letting you borrow his or her money, thereby adding dollars to your monthly payments.

CREDIT TIPS TO KEEP IN MIND

. Credit means borrowing someone else's money. Interest is charged for the use of money. Charges will vary and depend to a large extent on:

- age of car.
- who is lending you the money and for how long.
- your credit rating and your present circumstances.
- type of loan.
- legal limits (vary with different types of lenders).

. The longer you take to repay a loan, the more it will cost you. Some experts suggest that you borrow for as short a time as possible. Twenty-four months is a long time for paying off a loan; yet today it is often necessary for families to take out a 3- or even 4-year loan because car prices are so high.

. Try to have a downpayment of 1/3 to 1/4 of the total sum without borrowing.

. Read your contract carefully, never sign one with blank spaces, have everything in writing, and ask about any term you don't understand. Oral promises are usually worthless. You have the right to ask for the contract so that you can study it.

. If you buy from a private seller, contact the Certificate of Ownership Bureau, Division of Motor Vehicles, to make sure the title is clear, with no loans attached.

WAYS TO PAY FOR YOUR CAR

* Cash is the cheapest and easiest way.

* Cash down, the rest on credit -

  Credit in the form of monthly installments--you borrow the difference and repay the loan over a definite period of time--12, 24, 36 months. This is the standard method of payment.

* Credit in the form of a single payment loan (from a bank)--You borrow the difference in one sum, pay the dealer for the car, and repay the whole loan at a specified time in the future.

* Borrow cash for the downpayment, the rest in installments -

  Occasionally the downpayment is borrowed from a small loan company and the balance from the dealer. This is not recommended. You are left with two loans at high interest rates.

WITH INSTALLMENT LOANS, REMEMBER:

Under the terms of an installment loan contract, you will have possession of the car you are buying, but the institution lending you the money will own the car until the final payment is made.

You promise to:

. pay off the loan on time each month.
. carry collision insurance as long as the loan is outstanding (if applicable).
. inform the lender of change of address.
. not sell the car without the lender's permission.
. be responsible for all damages.

Read the fine print. If you don't meet your regular payments or if you breach any other clause in your contract, you may be subject to:

Acceleration: The entire amount of the outstanding loan comes due at once. With a $3,500 balance, this can mean trouble for the consumer.

Repossession: Car is taken and offered for sale at a public auction by the holder of the loan. You still owe any unpaid balance not covered by the resale and other expenses, e.g., repossession, lawyer's fees, and court costs. On the other hand, if the car is sold for more than the amount of your debt, you may be able to receive a refund for any possible surplus.

SHOP AROUND FOR THE BEST CAR LOAN -- These are some options:

Credit Union loans are only available to members; 9-12 percent interest rates on installment loans.

Savings Banks, Savings and Loan Associations, Commercial Banks offer passbook loans. These are available to holders of savings accounts up to the limit of the money in the passbook. The cost is usually 1-2% above the interest rate paid on the savings accounts.

Commercial Banks also offer installment loans which are available to people with good credit rating; 9-12 percent.

Car Dealers are convenient and offer loans and insurance coverages. They can be comparatively expensive, as the dealer usually sells your contract to a bank or sales finance company which then takes care of loans, bookkeeping, and collecting of monthly payments; (up to approximately 24 percent). It might be wise to compare their cost for insurance coverage with the costs of your own insurance carrier before making a decision.

Your Life Insurance Company offers low-cost loans. You can borrow up to the cash value of your policy; if you die before the loan is paid back, the amount owed will be deducted from the face value of the policy; 5-6 percent.

Small Loan Company. Loans can generally be obtained more easily than from other sources. Limit--$2,500; comparatively high interest: 21.7-24 percent. (N.J. 1979)

Secondary Mortgage Companies are finance companies which offer secondary mortgage loans to consumers; 15 percent interest rate. Note: a lien is put on your home (legal right to have the home sold or applied toward payment of the loan).

All rates mentioned are approximate and stated on a yearly basis.

CREDIT LIFE INSURANCE

Ask yourself how much life insurance you have. In the event that something happens to you, would your family be able to pay off an outstanding loan and still have additional funds available?

If not, credit life insurance may be one item you would want in your credit contract.

In case of death of the owner of a credit life insurance policy, this type of insurance would pay off the unpaid balance of the loan.

Seriously consider it when you take out a loan if your family is not covered by enough insurance. This type of decreasing term insurance might be the "best bargain around."*

REMEMBER:

- Shop around for your car loan and for insurance. You do not have to buy car insurance where you finance the car loan.
- New Jersey law now holds the lending agency as well as the dealer responsible if you have legitimate complaints.
- You might be offered a contract stipulating small monthly payments for 23 months with a large "balloon" payment required as the last payment. The small monthly payments might sound tempting, but consider your personal financial situation before entering into such an agreement.

* By law, you need to be told whether or not credit life insurance is required and the cost involved.

CREDIT PROTECTION FOR CONSUMERS

THE CONSUMER CREDIT PROTECTION ACT

A comprehensive law, the Consumer Credit Protection Act, went into effect in July 1969. It is described as "an act to safeguard the consumer in connection with the utilization of credit by requiring full disclosure of the terms and conditions of finance charges in credit transactions or in offers to extend credit; by restricting the garnishment of wages; and by creating the National Commission on Consumer Finance to study and make recommendations on the need for further regulation of the consumer finance industry; and for other purposes."

TITLE I: THE TRUTH IN LENDING ACT

This Act, primarily a disclosure law, applies to any personal loan under $50,000 where there is a finance charge involved and to any transaction where repayment by the consumer is in more than four installments. The law does not set a ceiling on interest rates, nor does it have anything to do with how much you pay in interest. (Interest rates are regulated by each of the individual states, which usually determines a maximum rate that can be charged.) This law does make it easier for qualified applicants to compare various interest rates and to "shop around" for credit.

Lenders must state the annual percentage rate charged on a loan. Before the truth in lending law was passed, finance charges could be stated in a variety of ways, which made cost comparison difficult and confusing.

The law deals with two types of credit:

Open-end Credit. (e.g., department store charge accounts and gasoline credit cards.)

The law requires that the annual percentage rate (i.e., 18% annually) and the monthly rate (i.e., 1.5% monthly) charged on open-end credit accounts (charge accounts) be clearly stated. You must be told on what balance the rate is charged, so that a comparison can be made.

- Finance charge based on previous balance is the most expensive to the consumer because it does not take into account any amounts paid after your last monthly balance.
- Interest may also be charged on an average daily balance.
- Charges based on an adjusted balance take into consideration how much you actually owe, and the dates on which you have made payments. This is the fairest way of computing interest.

The lender must send you a monthly statement giving you all the information on your account as long as the account is active.

Closed-end Credit. (e.g., installment purchases, where the total amount, number of payments, and date due are specified in the contract.)

The lender must disclose all the costs of credit, including filing fees, simple interest, and credit life insurance, if the latter is required. This information must be stated in two ways:

. As an annual percentage rate--e.g., "Annual Percentage Rate: 8%."

. As a finance charge, in dollars and cents--"$400."

The lender is also required to tell the consumer:

. The cash price--e.g., "Furniture: $2,200."

. The deferred payment price (cash price plus finance charge)--"Furniture ($2,200) plus Finance Charge ($400) totals $2,600."

. If credit life insurance is required, the premium costs must be included in the finance charge and in the calculation of the annual percentage rate.

It is to your advantage to ask the total cost of credit early in the interview. All of this information and more has to be given to you before you sign a credit contract. Don't be content with being told how "low" the monthly payments will be! Before you sign the contract, be sure you know what the annual percentage rate will be and what the total cost of credit in dollars and cents will amount to over the time span of the contract.

Credit life insurance can be very valuable. If you die, the insurance will pay off the remaining balance. When obtaining such insurance is a prerequisite of getting a loan, you must be informed. The law also requires that insurance premium costs be included in the finance charge and not be hidden from the consumer. Credit accident insurance is also available.

TITLE II: LOAN SHARK ACTIVITIES

The law calls these "Extortionate Credit Transactions," and has made it illegal to collect credit by extortionate means--that is, use of any kind of direct or implied violence or other criminal means to cause harm to persons, property, or reputation. It is illegal to make or finance extensions of credit using threats and extortion.

TITLE III: WAGE GARNISHMENT

Garnishment is defined as any legal or equitable procedure through which a certain amount of money is withheld from a person's salary to pay off his or her creditors. Arbitrary wage assignments by employers are illegal and wages can be withheld by court order only.

TITLE V: CREDIT CARDS

This amendment, which regulates credit cards, became effective in 1970. A credit card is not valid until you have signed it. If the card is lost or stolen, you can be held responsible for only $50 of the charges made by someone else. You are responsible for that only until you report that the card is missing. So report its loss to the lender (gasoline company, department store, or agency) immediately!

In order to hold you responsible for unauthorized charges on your credit card, the creditor must provide a means of positive identification (signature, fingerprint, or picture) and he/she must prove that the charges in question were made before you notified him or her of the theft or loss.

TITLE VI: THE FAIR CREDIT REPORTING ACT

This act, which became effective in 1971, regulates both credit and investigative reporting agencies and their users. It also regulates the consequences for the consumer of such reporting. It was primarily designed to protect consumers against false or inaccurate reports about them, against the results of such reports, and against the use of any reports by firms or individuals with no legitimate interest.

There is a need for fair and accurate credit reporting. The lending industry depends upon such information. An elaborate system has been developed for investigating and evaluating the credit worthiness, credit standing, credit capacity, and general character and reputation of the consumer.

There is also a need to ensure that credit-reporting agencies exercise impartiality and respect for the consumer's right to privacy.

The Fair Credit Reporting Act regulates to whom the agency can give the information in your file. It limits to seven years the time adverse information can be used, though in the case of bankruptcy, this period can be extended to 14 years.

If an adverse report has played a part in a decision to deny you credit, insurance, or unemployment, you must be notified that you were rejected because of the contents of the report. You must also be given the name and address of the credit-reporting agency that supplied the report.

You can then request that the agency give you the nature and substance of all the information on your credit record. This disclosure has to be made to the consumer either personally or by telephone.

The credit bureau must provide trained personnel to furnish the requested material and to answer any questions you may have. You then have three options:

. Agree that the information is correct and accept it as it stands.

. If you believe that the information is incorrect, you can ask that it be rechecked and, if incorrect, that it be removed from your record.

- In a case that cannot be resolved, you can file a 100-word statement telling your side of the dispute that will be added to the record. (For instance, "I did not pay because the merchandise was faulty and the seller refused to make adjustment.") Then when a user asks for a report on you, he/she is informed that you have disputed your stored credit information and that your statement is available upon request.

Even if you have not been denied credit or a job, you can ask to be informed about your file--for a reasonable fee, though.

TITLE VII: EQUAL CREDIT OPPORTUNITY ACT

Because this act is so significant and deals with so many facets of credit discrimination, it is dealt with in a separate fact sheet.

YOUR MONEY MATTERS

Coping With Credit - UNIT II FACT SHEET #8-B

TITLE VII: EQUAL CREDIT OPPORTUNITY ACT

Credit is a part of life for most of us at one time or another, due to either necessity or convenience. But, women, minorities and the elderly have often been denied credit on the assumption that they are not good credit risks.

To stop this from happening, Congress passed the Equal Credit Opportunity Act. This law became effective in 1975, with subsequent regulations taking effect as late as 1978. It states that there is a need to insure that the various financial institutions and other firms engaged in the extension of credit exercise their responsibility to make credit available with fairness and impartiality.

Most importantly, the Act makes it unlawful for any creditor to discriminate against any applicant because of sex, marital status, race, national origin, religion, or receipt of public assistance such as social security or aid to families with dependent children.

This Act applies to all who regularly extend credit, including banks, finance companies, department stores, and credit card issuers.

WHAT YOU SHOULD KNOW:

As of June 1977 creditors who provide information to credit bureaus on how you pay your bills must let them know both names on accounts you share with someone else (if you both use an account, one or both are liable for it). For accounts opened prior to this date, the creditor has to send you a form asking if you want the credit information provided in both names. If you're a married woman, it is important that you fill out this form so you have a credit history of your own.

CREDITORS MAY NOT:

- Ask about your birth control practices or child-bearing plans and assume that because of your age, you may drop out of the labor force to have a baby, causing an interruption in income. Creditors may, however, inquire as to how you plan to handle your finances should you become pregnant.
- Discount income from part-time employment, as long as the employment is shown to be reliable.
- Deny separate accounts to each spouse if each applies separately and voluntarily.
- Prohibit use of birth-given first names and surnames in opening or maintaining accounts. Use of titles such as Mrs., Miss, Ms., or Mr. is optional.

. Use unfavorable information about an account you shared with a spouse or former spouse if you can show that the unfavorable history doesn't accurately reflect your willingness or ability to repay.

. Discourage a potential applicant for any reason.

CREDITORS MAY:

. Request and consider information about an applicant's spouse only when the spouse is to be liable for the account or when the applicant is relying on the spouse's credit worthiness or income.

. Ask to what extent an applicant is relying on alimony or child support. Maintenance payments must be considered as income to the extent that these payments are likely to be consistently made.

. Ask questions about your spouse only when your spouse will be using or will be liable for the account, or when you are relying on your spouse's income or property to help pay back the loan.

CREDITORS MUST:

. Inform you as to whether your application was accepted or rejected within 30 days of filing it.

. Give you specific reasons for denial of credit either orally or in writing. These reasons cannot be vague or indefinite such as "You didn't meet our minimum standards," or "You didn't get enough points on our credit scoring system."

SOURCE OF ADDITIONAL INFORMATION FOR CONSUMERS

. Office of Consumer Affairs in your area

. Federal Trade Commission Regional Office in your area

YOUR MONEY MATTERS

Coping With Credit - UNIT II

FACT SHEET #8-C

CREDIT PROTECTION FOR CONSUMERS

SPECIAL PROBLEMS WOMEN MAY HAVE

Since women frequently play many roles during their lives, unlike the fairly continuous professional role played by most men, they may encounter difficulty in establishing their own financial identity and keeping it throughout life.

For example, although now illegal (since the passage of the Equal Credit Opportunity Act), many women feel that there is still subtle discrimination against them when they apply for consumer credit or mortgage loans. Such discrimination is based mainly on assumptions that women are poorer risks than men. Remember when applying for credit that the general considerations for granting credit (credit criteria) include size and stability of income, past credit record, type of job held by the applicant, and length of time at current address.

The difficulty is that unlike men, women have tended to move in and out of the labor force while raising children. After marriage, most women change their surnames, and, financially speaking, lose their independence. Also, salaries for women have often been lower than those for men, and women have not tended to hold jobs at professional levels equal to those of men. Thus, general circumstances alone may prevent women from obtaining credit and having their own financial identity.

The following information will show you how receiving lower or less stable incomes poses credit problems for women returning to the work force after many years.

For example, in 1977 the median income for husband-wife families was $17,616. For women who are the head of a household it was $7,765, while for all women it was only $4,840. This disparity in income immediately affects the amount and type of credit available to women.

HOW SOME CREDIT PROBLEMS DEVELOP

Starting out:

Both men and women who are 18 years old, single and working, will need a co-signer to obtain credit or must offer collateral for a loan. They have no established credit rating. The co-signer will most likely be a parent. The collateral offered for the loan will be money saved in a savings account.

Continuing to Work:

If both the male and female continue to remain single and to work, their circumstances will often improve, depending on stability of job, size of income, and past credit record. This group of consumers (either sex) usually does not have difficulty obtaining credit if they have a good payment record.

Marriage

When a man gets married, his credit status remains the same as he continues to work and improve his job status. Many times he establishes additional credit ratings and financial stability by setting up accounts and deeds in his name only. For example:

Car loans and other types of installment credit
Personal bank loans
Charge accounts
Family insurance policies--home, car
Property

As women become more sensitive to the area of joint financial decision making and to take on responsibility in this area, the situation will slowly change for the betterment of the entire family.

As far as the woman is concerned, when she gets married, she can lose her financial identity if she only uses her husband's name and credit accounts.

If she continues to work and to help pay the bills, she should make every effort to maintain her own credit and financial identity; that is, she should:

. keep some charge accounts in her own name.
. have her own savings account in addition to a joint one.
. apply for a car loan in her name only.
. make sure that she uses and is co-responsible for the accounts.

Before the law came into effect, the fact that Mrs. John Dubb had a credit card under the name Delores Dubb was not enough. This was often a "courtesy card" with the account number in John's name. Thus, all credit information was recorded in his file, reinforcing his credit rating, even if Delores paid the bills and kept the budget.

Now the law stipulates that if both husband and wife are using the account and/or are both liable for it, the information will automatically be reported in both names to the credit bureau.

Unless a woman has her own account number, no information will go into her credit file. She would be wise to check with the credit bureau listed in the yellow pages under Credit Reporting Agencies to be sure that her credit transactions are not being automatically recorded in her husband's file.

The lending officer makes the final judgement on whether you will get a loan. The lending officer's preconceptions about women and credit and his or her extent of confidence in you can affect his or her decision to grant you the loan.

Divorce

When there is a divorce, the situation for the husband is frequently as follows:

- Credit status is generally unchanged by the divorce.
- Circumstances may be generally improved, depending on stability of the job, size of income, past credit record, and alimony and child support payments.
- Change of job and/or residence may cause temporary difficulty in obtaining credit.

For the wife, a divorce could mean that she:

- May have to start at the same point as an "18-year old," with no credit and financial identity.
- May not be regarded as having a steady income if the alimony payments cannot be proven to be regular.
- May not be paid as much as a man for the same work (restricting available credit as a result).
- May not have worked and lived in the same place long enough to qualify for credit.

Death of Spouse

For the husband, it can mean a generally improved credit situation depending on stability of job, size of income, and past credit record.

For the wife, it often means that she:

- Starts over with no credit identity, although there is no "legitimate reason" for this now, since the ECOA stipulates that accounts used by both parties (or for which both are liable) are being reported in both names to the credit bureau. This establishes a wife's credit rating.
- May stop receiving her husband's pension unless it specifically has a survivor's benefit clause, and then it might be substantially reduced from what it was before his death.
- May not have sufficient work experience or have lived in the same place long enough to qualify for credit.

Retired

Senior citizens (both sexes) do not find it easy to obtain credit (although discrimination is now illegal) because of their lower earnings, even if they were good financial risks all their lives. Yet for safety and convenience reasons (e.g., travel), they need credit cards and other types of accounts.

A CHANGING ENVIRONMENT

Women may find it especially necessary to be vocal. Many states have new and revised laws with regard to women and consumer credit. Regulations which require lenders to include the wife's income in calculating the amount of mortgage a couple can handle are becoming more common.

The social environment is changing, but such changes occur slowly. As women's views of themselves evolve, as they participate more fully in the work force, and as their participation is seen in a new perspective by those observing them, instances of discrimination will be less common and women will be seen as full and equal participants in the labor force as well as in the home.

But unless those affected by new laws make their opinions known and insist on enforcement, such changes will have no great impact. Consumers who feel that they have been subject to discrimination when applying for credit have recourse to federal as well as to state legislation. Often problems can be cleared up easily and with little trouble by someone "one step up the ladder" in the organization to which you have applied for credit--someone who understands your circumstances, the regulations that apply to your case, and the new credit legislation. The lending industry is undergoing great changes. Many companies comply with the new credit laws and show great sensitivity towards women, minorities, and senior citizens. But there are always exceptions, and the new policies, laws, and implications of social change may not have filtered down to the individual conducting the interview.

YOUR MONEY MATTERS

Coping With Credit - UNIT II FACT SHEET #8-D

CREDIT PROTECTION FOR CONSUMERS

FEDERAL TRADE COMMISSION RULES AND YOUR CREDIT RIGHTS

Besides the Consumer Credit Protection Act, enforced by the federal government, additional regulation of credit and your credit rights can be found in the trade regulation rules from the Federal Trade Commission. Although they are only rules, they are generally considered to have the force of laws.

DOOR-TO-DOOR SELLING

A Federal Trade Commission rule that went into effect in June 1974 says that you, the consumer, have a "cooling off" period of three days if you buy merchandise for $25 or more from a door-to-door salesperson, someone who sells away from the firm's principal place of business. This applies to goods or services purchased, leased, or rented primarily for personal, family, or household purposes, including courses of instruction or training. The sale must be initiated in your home, not in a store, and the salesperson may be someone you have invited to call on you or one who has arrived uninvited. This "cooling off" period allows you to decide if you definitely want to keep the merchandise you purchased.

Read the entire contract before you sign it, and don't leave any blanks even if the salesperson tells you what will be written in later. Insist that it be complete before you sign. At the time of the sale, you must be given a fully completed receipt or a copy of the contract. Included in the contract should be the date of the transaction and the name and address of the seller. As with any contract, be sure you understand everything before you sign. Note that if the sales pitch is made in any language other than English, the contract and written explanation must also be in that language.

Right to Cancel:

- The most important provision of this FTC rule states that you, the buyer, have the right to cancel the sale at any time prior to midnight of the third business day after the date of the transaction. This must be clearly stated in the sales contract, and there must be an easily removable form attached for cancelling for the consumer's use.

- If you should decide to cancel, you must mail or hand deliver the signed and dated copy of the cancellation notice or any other type of written notice to the seller. Remember that it must have your signature on it.

- There is no penalty or fee that you must pay should you change your mind about the sale within three days. This applies whether the purchase was paid for all at once or whether you planned to pay in installments. Any payments you have made must be returned to you within ten days.

- When you cancel a contract, you must return any already-delivered goods to the seller at your residence. Make arrangements for the seller to pick them up, at his/her own expense, within 20 business days after the cancellation date. If the goods are not picked up within this time, you may keep or dispose of them without any further obligation.

Be Aware of Your Rights:

- Look into the person doing the selling and the company he/she represents before you sign a contract. Many door-to-door sales people are honest and well-meaning, but some are not. If you are not sure, tell the salesperson to come back and make some calls to find out about the company.

- The Better Business Bureau cannot make recommendations, but they keep a file of complaints and might give you some idea about companies you don't want to deal with. Other sources of information are the regional Federal Trade Commission office and the Office of Consumer Affairs.

- Remember that if you change your mind, you still have three business days to cancel before the sale becomes final.

SELLING THROUGH THE MAIL

The method, often used by book and record clubs, is also regulated by a Federal Trade Commission rule. The rule applies to plans where the consumer is notified of a periodic (usually monthly) selection of merchandise that will be shipped unless he/she notifies the seller not to send it. It also applies to any merchandise that is advertised in newspapers, magazines, catalogs, etc., and must be ordered by mail (e.g., novelty items, wearing apparel, magazines, nursery items).

Shipment of Goods:

- The seller must be able to ship the merchandise within the amount of time stated in the solicitation, or within 30 days after receipt of a properly completed order.

- If the seller cannot ship the merchandise within 30 days, he/she is required to offer the consumer an option either to consent to a delay or to cancel the order and receive a prompt refund.

- Should the buyer not answer the seller's notice of a shipment delay, the seller can consider this to be a consent to deliver the goods within an extended 30-day period.

- Keep in mind that all promotional literature must state clearly how a selling plan operates. The subscriber must be given at least ten days in which to instruct the seller not to mail the merchandise. If the consumer receives the shipment without requesting it, the seller must give full credit and pay return postage.

QUIZ FOR UNIT II -- COPING WITH CREDIT

Dear Friend,

This quiz covers Fact Sheets 4, 5, 6, and 7 of Unit II -- Coping With Credit.

After reading the fact sheets, you are ready to complete the quiz. Feel free to refer to your fact sheets whenever necessary. Please follow the quiz instructions and return the quiz in the return envelope.*

Name _____

Address _____

_____ Zip _____

Instructions:

This quiz contains two types of questions, true-false and multiple choice.

True-false: Circle "T" if the statement is true and "F" if the statement is false.

Multiple choice: Select the best possible answer and write the corresponding letter in the blank provided.

1) T F The amount of credit you can safely take on depends only on the size of your income.

2) T F It is easy to over-buy when using credit cards.

3) T F Families who habitually buy on credit may add as much as 18% to the cost of goods and services.

4) T F When using installment credit, the customer owns the goods as soon as they are in his or her possession.

5) ____ The main reason for establishing a good credit rating is:

   a. all your friends have one
   b. to be able to open a checking account
   c. employers like to see it before hiring you
   d. it will be easier to get a loan when you need it most

6) T F A credit bureau is the same thing as a credit grantor.

7) ____ A consolidation loan is:

a. many small debts which you have to pay
b. one large loan to pay off many small debts
c. a low-interest loan
d. a loan with a few large payments

8) T F When you use a credit counselling service, you can continue to use any of your credit cards.

9) T F When using a credit counselling service, or on your own, many creditors will make adjustments if spoken to and convinced of your sincerity and willingness to pay.

10) T F The cheapest way to pay for a car is to finance it through the car dealer.

11) T F An acceleration clause in a loan contract means that the entire balance may come due at once.

12) T F All car loan contracts are the same, therefore you don't have to understand what all the terms mean.

We would appreciate the following information to help us improve our service:

Have you used or shared any of this information from the fact sheets or do you plan to do so?*

Yes _____ No _____

If yes, in what way? (Please use reverse side of this sheet for your comments.)

*Applicable only if this unit has been administered through a County Cooperative Extension office. If not, please complete the quiz and retain for your own benefit and reference.

Unit III — Planning for Protection: Life Insurance

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YOUR MONEY MATTERS

Planning For Protection: Life Insurance - UNIT III FACT SHEET #9

THE BASICS

THE CONFUSION OVER INSURANCE

The variety of insurance policies and plans available, the different names under which they are written, and the differences in costs involved confuse many consumers. Many also do not understand why they need life insurance. And, if they carry insurance, they are never sure if they have bought too much or not enough. They want information about the differences so they can buy insurance tailored to their specific needs. Whether married or single, consumers want insurance programs that offer protection and low cost.

The right kind of insurance plan for an individual should take into account the number of dependents, the ages of various family members, the policyholder's income, and how it is earned. It should also look at the beneficiary's standard of living and future expectations. The plan should be an important part of a comprehensive, long-term financial program which involves setting overall financial goals, calculating financial net worth (all assets minus all liabilities) on a yearly basis, and establishing a regular savings program.

SHOULD I HAVE LIFE INSURANCE?

The primary purpose of life insurance is to protect against financial hardship if the breadwinner's earning capacity is taken away. The objective should be to leave the family in relatively the same economic position it would have been in if the breadwinner had survived. This may involve a smaller amount than the income when he/she was alive, because his or her own self-maintenance costs will no longer be included. It is also wise to consider the element of possible inflation in the cost of living. Savings features should generally be of secondary concern.

Eighty percent of all adults in the United States and 91 percent of all families have some form of life insurance. Research shows that most consumers find ownership of life insurance important--whether to protect their families from expenses resulting from a death, to offer income to survivors, or to provide some savings (in the form of tangible cash value, if needed).

HOW DO I KNOW IF I AM OVERINSURED OR UNDERINSURED?

A recent study shows another side: approximately 50 percent of the families surveyed were underinsured, and another 25 percent were overinsured. This means that 75 percent of the policy holders had inappropriate insurance protection--whether it was too much, or too little. This is one of the more difficult problems confronting consumers and their families.

How Much is Enough?

Depending on your family's special situation, the amount of insurance required will range anywhere from enough to cover the costs of funeral expenses, to what will provide a large, lump-sum payment at death. (This lump sum can also be paid to the beneficiary as income, broken into regular payments over a certain period of time, until the capital is exhausted.)

What Do I Need?

Your family's needs for protection, and what you can afford to pay in premiums should be your prime concern when determining which insurance plan you should adopt, and how much coverage you need to buy. Keep in mind that your insurance needs will undergo many changes during various stages of your life and your family's. As this occurs, policies can be changed and adapted, but don't alter your coverage too quickly. Talk to your insurance representative or to a professional in the field of estate planning, and try to get a long-term view of what will be the most satisfactory plan for your particular circumstances.

What Can I Afford?

How much your protection will cost you is an important consideration. You will have to set priorities and balance them with your resources in order to fit your payments into your overall budget plan. It is important to compare the cost of the various insurance policies and then weigh this cost against your needs.

Insurance costs will vary because of a number of differences:

- TYPE OF POLICY--Whole life premiums are approximately three times as expensive as term premiums are initially, but you'll find that term premiums increase in cost every time you renew. Term insurance is generally "pure protection," with no savings involved, and is usually the least expensive form of insurance. The "purer" the insurance, the less costly it is. The greater the stress in your policy on the accumulation of a reserve, or cash value, the more expensive it becomes. The extremes run from decreasing term at one end to endowment policies at the other end.

- INSURANCE COMPANY--There are differences in the cost structure between various insurance companies.

- STRUCTURE OF POLICY--All policies, plans, riders, etc., are not uniform in nature, so this makes cost comparison between various companies difficult.

SHOULD I COMPARE DIFFERENT COMPANIES?

You certainly should! However, this is not the easiest thing to do. The best policy at a competitive price is good to have, but don't forget that price is not the only consideration. Other factors include the reputation and rating of the company, the service given by your representative, and the confidence and trust you have in them.

Before you sit down with your insurance representative, you should think through your own or your family's situation very carefully to determine the needs you have and the sort of protection you want. After you've done this "soul searching," you will be able to talk more productively by asking your insurance representative the right questions. He/she will be able to fill you in on the details of different plans, and together you can balance what you need with what you can afford.

Where Can I Get Information?

There are several sources available that can help you find out more specific information about the various companies and policies. A few sources are listed below. Check your local library for additional resources.

- Kiplinger's Changing Times magazine, particularly the April and May 1978 issues. (Public library)

- Best's Review, the Life-Health Insurance Edition: Check the latest edition for information on life insurance costs and dividend comparisons. (Mutual companies only)

- Best's Insurance Reports/Life-Health, current yearly edition: Check the listings and ratings of about 475 of the largest and most prominent companies to make insurance comparisons easier for you. (Public library)

- "Life Insurance Buyer's Guide" - leaflet prepared by the National Association of Insurance Commissioners and reprinted by The National Underwriter Co., 420 East Fourth Street, Cincinnati, Ohio.

- "Guide to Life Insurance for College Students" - leaflet prepared by the New Jersey Department of Insurance.

Remember that every year companies change dividend scales and insurance portfolios.

How Can I Compare Life Insurance Costs?

There are two methods in comparing costs:

- "INTEREST-ADJUSTED" METHOD--This method of cost comparison takes into consideration three basic elements that influence the cost of life insurance: the premiums you pay, the dividends you receive, and the cash surrender value your policy builds up. It applies an interest factor which takes into consideration the time value of money. The time value of money is the value that money will have over a period of time when it is put to use to earn interest. This then provides an index for comparing the cost of policies of the same type and size at a fixed point in time.

  This method is considered a fair method of computing costs of life insurance by the National Association of Insurance Commissioners and the insurance industry.

- TRADITIONAL "NET-COST" METHOD-- This method compares the actual cost of premiums over the years, while taking into consideration any dividends received and the cash value built up. It is not considered a fair method of calculating cost by many because it does not consider the time value of money. While a policy which is explained under this method may appear to be inexpensive, it actually costs consumers more because their money might have earned interest had it been placed in a savings account.

WHAT SHOULD I CONSIDER?

The following list may be helpful as you think about your own circumstances, needs, and aspirations. It may help you prepare a list of goals and questions for your insurance representative. They are questions you should ask yourself as you begin deciding what kind of insurance coverage you want and need.

. What are my overall assets and liabilities? How much of my income can I reasonably expect to be able to pay out in insurance premiums?

. How will my family's standard of living be affected by the death of any family member? Ask this from all points of view for each member of the family. For example, the death of a "nonworking" grandmother who takes care of her grandchildren while both parents work might mean that the family would be faced with child care costs.

. How much cash is needed simply to cover funeral expenses for any family member? How much money is required for medical bills, or for outstanding debts, such as mortgage payments or car payments? Where will that money come from?

- How many dependents do I have, and how old are they? How do their ages affect the kinds of protection each will need in case of my death or my inability to continue earning money? This may include child care, education costs, or hospital and nursing care.

- What income level will be needed to keep my family's standard of living at its present level if the main wage earner were to die tomorrow? Although inflation is difficult to project, if it fits into you financial budget, consider a projected inflation factor. Review your program every few years, or whenever your situation changes.

- How much money will be needed to pay estate taxes--especially if there is a large estate involved? Early consideration of this question makes it possible to save many family-owned businesses and other small firms which otherwise fold when one member dies.

- Will additional money be needed for the education of my children, or for my spouse's education before he/she is able to re-enter the work force after my death?

- Who will care for my children if the person now watching them has to return to work? How much would any necessary professional help cost?

- Are both husband and wife working? If so, will the death of one spouse be just as great a financial burden to the family as the death of the other?

- What can I expect from Social Security in the event of my spouse's death? (Consider this for both husbands and wives.) What kind of protection will Social Security offer to my children?

- Is there a survivor benefit clause included in my group pension plan? Will it provide my spouse with benefits after my death? (This is called a survivorship clause.)

- What are the estimated Social Security payments to my beneficiary at my death, or to me at age 62, 65, etc.? Your local Social Security Administration office, or a representative of your personnel department at work can provide this information.

- What income can I expect from my company's pension fund, and/or from any other retirement income I might be receiving, such as annuities?

- When will my pension plan become vested? Although you always have a right to your own contributions to your pension or retirement fund, you may not have an indisputable claim on your employer's contribution until the plan is "vested," and your rights may be vested before you have access to the money.

. When I retire, how will my income level affect my ability to pay insurance premiums? How might that influence the kind of policy I buy now?

CHOOSING AN AGENT

You've made a decision to purchase life insurance. But how and where can you find an insurance agent?

David B. Malkin, C.L.U., director of the Life & Employee Benefit Division of Frenkel & Co., Inc., has some suggestions for your search. He advises prospective insurance buyers to interview several agents, and to make sure that the insurance company with which they will be doing business is licensed in the state where they reside or work.

Malkin explains that although an agent's length of time in the business and whether he is a C.L.U. or member of the Million Dollar Round Table are factors in the decision, they would not be his criteria for choosing an insurance agent. "I would be most impresssed", he said, "by the agent who wanted to know more about me, my family, my goals and aspirations, and who addressed his advice to the answers of those particular questions."

"When seeking counsel in any field," Malkin stressed, "it is the listener that I seek and not the talker."

BASIC POLICY TYPES

Insurance plans or policies have many different names, depending on the coverage or combinations of coverage involved and the company issuing them. They become easier to understand once you realize that there are just three basic types of life insurance policies:

Term - considered "pure protection"
Whole Life - combination of protection and savings
Endowment - almost pure savings

In one way or another, all plans are really a combination of protection and savings elements. All plans provide protection against death. However, each of the three basic types has its own characteristics and each is designed to do a different job.

TERM INSURANCE

Term insurance provides pure protection, without savings features or a build-up of cash values. Because term protection is temporary, the benefits are payable only if the insured dies within a specified period of time. It is usually taken out for periods of 5, 10, or 15 years. Premiums are lower than those for whole life, and stay the same as long as a given contract is in force. If you wish to renew the contract, you will be charged a higher premium, with the amount depending on your age. Generally, you will not be able to renew your term insurance policy after you reach age 65. Term insurance is for persons who need maximum protection at the least cost. An example of this is a young couple with children who are unable to afford enough whole life insurance at this early stage in their lives.

Basic Structure of Term Insurance:

There are two basic types of term policies:

Level Term - The face value of level term insurance remains the same from the day the policy comes into force until the day it expires.

Decreasing, or Reducing Term - Your coverage decreases regularly on a monthly or yearly basis, until it eventually reaches zero.

Pay a Little More - Get a Little More:

You can pay an extra fee to have a clause included in the contract which will make the policy convertible to a straight life or endowment policy without a medical exam. Sometimes this conversion period is shorter than the length of the policy. This can be seen in a 20-year term policy with a 10-year convertibility feature. If you convert your policy within 10 years, you do not have to prove your insurability by passing a medical examination.

Types of Term Insurance:

CREDIT LIFE INSURANCE - This type of decreasing term insurance is taken out specifically as protection to cover the cost of repaying a large loan or major credit purchase. In case of the death of an owner of this type of policy, the insurance would pay the unpaid balance of the loan. The face value of the policy is calculated to decrease as the amount due on the loan is reduced.

CREDIT ACCIDENT INSURANCE AND CREDIT HEALTH INSURANCE - Also available as decreasing term insurance, these types of insurance are similar to Credit Life Insurance and insurance which would be paid if the owner were unable to continue working.

MORTGAGE INSURANCE - This can be purchased as decreasing term, level term, or whole life. If purchased as decreasing term, it would pay off the balance of the mortgage in case of death. It decreases in face value as the mortgage debt decreases.

GROUP LIFE INSURANCE - Basically term insurance, it protects your dependents as long as you are with the employer under whom the plan is arranged. It covers employees of a company under one master policy. In most cases, this type of policy includes the option to convert to a whole life policy within 31 days after termination of employment. The premiums are relatively low and do not differ for the various age groups within the same company. However, many people buy private insurance, either in addition to, or in place of, the company-offered policy, especially if they are young and qualify for a lower premium. In many cases, people who do this are not sure that they will stay with their present employer, and want to avoid paying the higher premiums that would be required if they bought private insurance later. Also, they might want more protection than is offered through the group plan.

WHOLE LIFE AND ENDOWMENT POLICIES

WHOLE LIFE INSURANCE

Also called ordinary, or straight life insurance, this type of insurance protects you for your lifetime as long as you pay the premiums. It is therefore referred to as "permanent insurance." You pay a level premium for as long as you live, or up to age 100. The premium is calculated to remain the same through the years.

The face amount of the policy is payable to the beneficiary at the death of the insured, or when he/she reaches the age of 100. In addition to this protection feature, there is a savings feature not included in term insurance. The cash value of a whole life policy accumulates over the course of the years in which a premium is regularly paid. Though it is not generally recommended, the owner of the policy can borrow against that cash (or cash surrender) value, at a relatively low interest rate.

Cash Value of Whole Life Insurance:

The premium paid on a whole life policy remains the same throughout life, but during the policy's early years, the policy owner pays a higher premium than is required according to the mortality rate of the insured person's age group. This additional amount goes into a reserve fund and becomes the savings portion of the life insurance policy. In later years the premium payments are lower than the mortality rate implies. As the years go by, and you pay regular premiums, the reserve grows (the savings portion of your premium will increase while the insurance portion decreases). The cash value will equal the face amount of the policy when the policyholder reaches age 100, if the insured lives that long.

Borrowing against Whole Life Insurance:

A policyholder can borrow against a whole life policy's cash value. If this is done, interest must be paid on the amount borrowed because the money does not belong to the policyholder. The money belongs to all persons insured by a company, and the benefits are paid out from this "cash pool," or reserve fund. The cash value belongs to you only if you give up your policy. In the case of the death of a policyholder who has borrowed against his or her policy, the amount borrowed plus the outstanding interest will be deducted from the face value of the policy--the amount to be paid to the beneficiary.

Variations of Whole Life Insurance:

There are some whole life insurance plans that offer the same protection as ordinary whole life, but the payments are different. The period of time over which the payments are made may also differ.

MODIFIED WHOLE LIFE - Protection here is the same as for whole life, but the premiums are lower than would ordinarily be charged in the first few years. However, they will be higher in the years thereafter.

A modified whole life policy is often taken out by a person who doesn't have the means as yet but does have dependents he/she wants to protect with life insurance. A young professional with young children fits into this category.

Another modified life policy you may encounter uses dividends to purchase term insurance for the first year or so, combined with whole life. When the dividends become large enough, they are used to purchase additional whole life insurance. For example, a $20,000 modified policy is actually $14,000 whole life and $6,000 term during the first year. Dividends will allow you to continue to purchase additional whole life insurance until the policy becomes $20,000 whole life. The premium remains the same throughout.

LIMITED PAYMENT LIFE - Protection is the same as for whole life. However, limited payment life premiums are limited to a specified number of years. The payments will be higher than those of ordinary life policies because they are made for fewer years. But, remember that they are being made for lifelong protection.

A limited payment life policy is often taken out by people who can easily afford high payments now because of high current income, but who have an uncertain, or not-too-secure economic future, or who don't wish to pay premiums until age 100.

An example of this type of policy is "25-payment life," where premiums are paid during 25 years, although it offers lifelong coverage.

WHOLE LIFE, PAID UP AT 55, 65, etc. - This is similar to limited payment life; however, you specify the age by which the policy is to be paid up. After you reach that age, no more premiums are required.

JUMPING JUVENILE - Permanent insurance is bought on the life of a child younger than 14 years old. When the child reaches 21, he/she will automatically be covered by two, three, or more times the original face amount of the policy at no additional cost. Usually, these policies are sold in units of $1,000. The premium for the policy remains the same throughout life.

One advantage of this type of policy is that the parents are protected by some funds for final expenses if the child dies, and the child is guaranteed permanent insurance for life, regardless of any future illness (no medical exam has to be taken at age 21).

Jumping juvenile policies are most commonly whole life, though they are also occasionally purchased as endowment policies.

MORTGAGE INSURANCE - Insurance specifically intended to cover the cost of paying off a mortgage can be bought as straight life, level term, or decreasing term.

ENDOWMENT POLICIES

This policy is also considered a savings plan with term insurance, or an insured savings plan, because it offers a strong savings plan combined with decreasing term insurance.

The proceeds (face amount) of the policy will be paid whether the insured lives or dies. This is a "double promise." If death occurs within the endowment period, the proceeds will go to the beneficiary; if not, the face amount will be paid to the policyholder at maturity (the end of the endowment period). This can be paid as either a lump sum or in the form of monthly income. When the policy matures, you are no longer covered by insurance, but you are entitled to the face value.

Cash Value of Endowment Policies

Premiums remain constant and are payable until the date the policy matures. The cash value (savings portion) of your policy will build up quickly--much faster than whole life, or even paid-up life (for example, in 10, 15, or 20 years, or at age 55, 60, etc.).

As a general rule, the faster the cash value increases, the faster the insurance portion decreases, and the costlier the policy in question will be.

An Alternate to an Endowment Policy

Consider separating your insurance from your savings program by buying decreasing term insurance. This covers your protection needs while starting a regular savings program to take care of your savings needs. You may find interest rates will be more advantageous to you.

If you feel that you might overlook making the savings deposits, yet still want to have the protection offered by this type of policy and a monthly income or lump sum payment at maturity, you might want to let the insurance company do the saving for you by buying an endowment policy.

Uses of Endowment Policies

Since an endowment policy is often used as retirement income to supplement Social Security and pension funds, the time for which you might want to select this type of plan is when you retire. Or you can use it as payment to a youngster who has reached 18 or 21 to help meet college costs, etc.

COMBINATION PLANS

Families have different insurance requirements depending on their incomes, life-styles, number of dependents and their ages, and many other factors. So there must be a variety of plans available that will adapt to and meet each family's needs.

Combination policies serve this purpose by offering a variety of coverage when protection is uppermost in your mind. Special care should be taken by the consumer and his or her insurance representative to make sure that there is an understanding of when the protection ends.

These plans can sometimes be sold as "riders" to existing permanent policies, or as a separate insurance policy.

FAMILY PLAN

The Family Plan combines various types of insurance on all members of the family, and offers some protection at modest cost. Younger families in which the husband or wife is the major breadwinner frequently purchase this type of policy.

Coverage under the family plan will most likely include permanent protection taken out for a certain amount on the life of the father or mother (usually whole life), and temporary insurance taken out in smaller amounts on the lives of the other spouse and the children. The spouse's policy might mature when the major breadwinner reaches 60; the children's policies might mature when they become 18 or 21. Policies mature when children are independent and husband and wife no longer have child-care responsibilities.

All children are covered by a family plan policy. Usually, the cost does not depend on the number of children, although some companies put a limit on the number of children allowed without premium increase. A newborn child is automatically covered after a specified period of time (approximately 15-20 days). In many cases, benefits may be limited during the first year of the child's life, or for at least part of that first year.

If you already own a whole life policy and are interested in the Family Plan, you can add it as a "rider" (an addition or attachment to your policy) to cover your spouse and children. The type of coverage available will differ with individual companies.

FAMILY INCOME POLICY

This combines permanent (usually whole life) insurance with decreasing term insurance. It provides families in which the husband or wife is the main breadwinner with maximum protection while the children are young--when the need is greatest. If the insured dies during the income protection period, while the decreasing term policy is in effect, the beneficiary will receive an income for the remainder of this period. At the end of the income period, when the decreasing term policy matures, the face amount of the policy will be paid. For a small, additional sum, you can provide for the lump sum payment of your permanent policy at the time of death.

The possible income period starts when the policy is issued but concludes when the decreasing term policy ends (for example, 10 to 20 years later), regardless of which year within this time death occurred. If the insured dies after the main period is over, and the contract is still in force, the beneficiary will be paid the face amount of the policy, but will receive no income. Therefore, the coverage time is shorter.

FAMILY MAINTENANCE PLAN

This plan is similar to the Family Income Policy, but it combines level term and whole life insurance. If death occurs within the income period, it will provide the beneficiary with income payments for a specified period, such as 20 years, starting when the insured dies.

The lump sum payment from the whole life policy will be paid either at the end of the income period or, if the insured survives the main period of the contract, it will be paid at death.

You might want to provide your family with a lump sum payment upon death of the insured person, in addition to the monthly payments provided by the Family Income Policy or the Family Maintenance Plan. Many professionals feel that the small extra cost of taking out a higher amount of level or decreasing term insurance which will support the payment of a lump sum at the time of the insured person's death is worthwhile. There is often confusion regarding lump sum payments, and families are distressed when they find out that, contrary to what they thought, the proceeds of their whole life insurance policy are not due until after the income period ends. By paying a little extra to vary the policy, survivors will not have to wait until the monthly income payments end to receive the lump sum payment which may be more essential at the time of death than 10 or 15 years afterwards. This is one policy you should clearly understand before considering.

ONE-PARENT FAMILY PLAN

Some companies now offer a plan that protects just one of the parents and the children. This coverage has whole life coverage for the parent and term coverage for the children. This combination policy protects the family without duplicating insurance on the breadwinner. The plan is useful for the breadwinner who has enough insurance, but wants whole life coverage on the spouse's life and term insurance on the children's lives. This plan is also helpful in cases where the parents are divorced.

DOUBLE OR TRIPLE PROTECTION POLICIES

These plans combine level term and permanent insurance. They provide you with protection amounting to double or triple the face value of the policy for a specified period of time or until you reach a certain age. After this time has elapsed, the extra protection (which is superimposed term insurance) expires, and only ther permanent insurance, or the amount shown by the original face value of the policy, remains.

For a small extra cost, families can have maximum protection when they need it most--for example, while children are young and the surviving spouse is unwilling or unable to work.

YOUR MONEY MATTERS

Planning for Protection: Life Insurance - UNIT III FACT SHEET #11

POLICIES FOR EVERY PERSON

Here are some things that you might want to consider when you are buying insurance. Remember to be realistic about your own and your family's needs and goals. Then buy the kind of insurance, or combination, best suited to your individual circumstances.

CHILDREN

Coverage

1. Juvenile policy (most likely permanent insurance).
2. Family policy (probably through term insurance; it is cheaper).

Both of these types of coverage should have a conversion privilege. Both guarantee future insurability.

How much insurance for children; what is needed?

1. Final expenses (burial costs, medical bills, etc.).
2. Savings for education (endowment or other permanent insurance).

STUDENT

Coverage

1. Term insurance, to provide for burial costs, medical expenses, etc.
2. Credit life insurance, to protect parents from their children's debts for large purchases, such as a car or a stereo.
3. Whole life insurance, to guarantee later insurability. (Students should be careful about signing a premium loan agreement to borrow on their first- or second-year's premium. This may involve them in a debt which they will find difficult to repay.)

SINGLE MAN OR WOMAN, WORKING

Coverage

1. Term insurance (same as for student).
2. Mortgage insurance, if applicable.
3. Whole life (both to insure later insurability and to provide for any dependents who are looking to you for continuing support).

COUPLE, NO CHILDREN, BOTH WORKING

Consider what kind of pension fund and insurance each may have through the employer.

Coverage

1. Term insurance for mortgage protection, if necessary, and coverage for any large debts (credit insurance). Renewability and convertibility should be written into the contract.
2. Whole life insurance to guarantee later insurability.

COUPLE, NO CHILDREN, WIFE OR HUSBAND NOT WORKING

Needs may differ, depending on the ages of the husband and wife. Is a spouse willing and able to go back to work if the breadwinner dies? At what salary? Could he/she support himself or herself? What about Social Security or pension supplements?

Discuss possible settlement options with your spouse and agent. Consider a double protection policy and other options. Remember, your spouse will probably need both a lump-sum payment and a regular income if the breadwinner dies.

Coverage

1. Permanent insurance, most likely whole life.
2. Term insurance for credit, mortgage.

YOUNG COUPLE WITH CHILDREN

Both parents should be insured to guarantee the smoothest possible continuation of the present life-style if one dies. The surviving spouse will need both lump-sum and income payments.

Coverage

1. Family policy.
2. Family maintenance plan.
3. Family income policy.
4. Double or triple protection rider on above.
5. Term insurance for maximum amount on both parents.
6. Mortgage (probably decreasing term) on both.
7. Modified life.

COUPLE OR INDIVIDUALS WITH GROWN CHILDREN, NO OTHER DEPENDENTS

This may be the time to consider cashing in insurance policies and investing that money, plus the amount which would otherwise be spent on premiums, at safe but higher interest rates.

MEN/WOMEN: SINGLE, MARRIED, WIDOWED, OR DIVORCED

Coverage

1. Mortgage protection insurance.
2. Credit insurance.
3. Permanent insurance, such as whole life or endowment, if there are children, parents, or others who are dependent for support.
4. One-parent family plan, if applicable.
5. Consider owning an insurance policy on your spouse outright, or being named irrevocable beneficiary on one of his or her policies.

LIFE INSURANCE AND WOMEN

Women's changing roles in society and the increasing number of women in the labor force are having a great impact on the life insurance policy women need. Therefore, a few extra words should be spent explaining this situation.

Points to Consider

Determine whether or not a woman should buy, pay for, and continue to own an insurance policy on her husband's life. Money from such a policy will not be included in the husband's taxable estate when he dies. In a family where the husband is traditionally considered the "head of the family," he will probably be the owner of the policy. When he dies, ownership is passed along to the wife, if she is alive.

Find out what your prospective policy says about changing beneficiaries. It may be very important in the case of a divorce or legal separation that the beneficiary is an "irrevocable" beneficiary. Owning a policy on her husband's life gives a wife added financial stability and protection, regardless of the future.

Part of a family's complete estate planning in the early years of marriage should be a consideration of the wife's financial security. Discuss with your spouse, and your insurance agent or tax lawyer whether it would be better for the husband to own the family insurance policies for tax reasons. The concept of a woman owning her husband's policy is relatively new and not always completely understood or supported by many professionals.

A widow will need enough insurance/income to support both herself and her children until they are grown. However, she may not be working or have any other income and this gap may last until she is old enough to receive Social Security benefits. She must also be adequately funded during her own "retirement" years. This may include benefits from her own salary, Social Security payments, her husband's pension, and insurance benefits. It is with this in mind that insurance planning is most commonly done.

If a family has become accustomed to the higher standard of living made possible by two incomes, basic term insurance may not be enough to help the husband financially with the responsibilities of home and children if the wife dies. An insurance policy bought on the life of the wife is advisable, particularly if her death causes ongoing economic hardship to family members because they must replace her contributions to household work, child care, and family life-style.

A nonworking wife, although not actively salaried, still contributes to the family's standard of living. Her loss might mean that her husband will have to provide a housekeeper to care for the children, and will have to pay for other general household management activities that she had been providing. A policy on her life could pay for the care of their children, help provide for their educational costs, and provide additional income to be used in their support.

Single women with no dependents should still consider carrying enough insurance to cover final expenses and pay off any debts they have. A single woman's policy can also provide protection for dependent relatives, if this is necessary.

Since the mortality rates at any given age are generally lower for women than for men, premiums for insurance on women are usually lower than those for men. And as women share more equally in family and economic responsibilities, insurance coverage will have to be reexamined and altered to reflect both this change in roles and the value placed on work both inside and outside the home. As in the case of insurance for men, the kind of insurance coverage a woman carries should accurately reflect the needs of her dependents and the persons who would be affected economically by her death.

YOUR MONEY MATTERS

Planning For Protection - Life Insurance - UNIT III FACT SHEET #12

IMPORTANT PROVISIONS

WHAT EXTRA PROTECTION IS AVAILABLE TO ME?

Several riders are available to you at an additional cost when you buy an insurance policy. Investigate which riders are best suited to your particular needs and income. Some of these include:

Waiver of Premium - If you are disabled or cannot pay your premiums, some contracts provide for your continuing to pay up to six months. After that time, the company will return the amount paid during that time to you, and will continue to pay the premiums for you for as long as you are disabled.

Guaranteed Insurability - This lets you buy multiples for your present insurance coverage at later dates, without your having to prove insurability at that time. You will pay the premium appropriate to your age when you take out the additional insurance. This option is usually available until you reach age 40.

Double Indemnity - This clause, sometimes called an "accidental death benefit," will see to it that your beneficiary receives twice the amount of the face value of the policy should you die in an accident. The gambling aspect of this rider appeals to some people, but your family or beneficiary should be adequately provided for regardless of the cause of your death. If your plan is sufficient, double indemnity is a needless extra expense.

Automatic Loan Provision - This provides for payment of your premium by the insurance company if you haven't paid it yourself by the end of the year. This is done as a loan against your accumulated cash value. You will still have to pay the premium, but your insurance won't lapse in the meantime.

WHAT HAPPENS IF I STOP PAYING PREMIUMS?

When you stop paying premiums prior to the policy maturing (either because you cannot, or do not want to, continue payment), certain provisions, or nonforfeiture values, which are written into your contract provide you protection.

You can surrender your policy and can withdraw any accumulated cash value. Cashing in your policy will stop your insurance protection. If you cash the policy in early in its life, you are not likely to get much money because most of your premium dollar has been paying commissions and other company costs, and not much of it has gone into accumulating cash value. As the policy matures, more and more of the premium contributes to the accumulation of the cash value.

You can convert your policy to term insurance for the length of time that the cash value pays premiums. This is the option which most insurance companies will exercise automatically if you don't instruct them otherwise. The option is called "extended term insurance." You might select this option if you need more protection for a limited period of time.

You can convert to a paid-up policy for a reduced amount of insurance that covers you for life. This option is called "reduced paid-up whole life insurance." If you are satisfied with a smaller amount of protection and want coverage for life, this option may be best for you.

WHAT SETTLEMENT OPTIONS ARE AVAILABLE TO ME?

Settlement options refer to the method through which the beneficiary will receive the payments of the proceeds from the policy. These provisions are written into the insurance contract. They are:

Amount or Installment Option - The beneficiary is paid a specific amount until the principal and interest are used up. For example, a spouse may need a certain amount of money to make ends meet.

Time Option - The amount is spread over a predetermined period of time. For example, a spouse needs the additional money for a number of years until children are of a certain age, when he/she plans to go back to work and will not need extra income.

Interest Option - The proceeds remain with the insurance company and earn interest. This interest will be paid to the beneficiary beginning at a certain time in the future, as planned supplemental income, or college costs for children.

Annuity or Life Income Options - The proceeds are converted into straight life annuity. Payments can start immediately for as long as the annuitant lives or they can start at a later specified age. If he/she doesn't reach that age, no annuity is paid.

Joint or Survivor Annuity - An income is paid to the annuitant and spouse for as long as either one of them is alive. There are several options available. It is best to discuss them with the beneficiary and your insurance representative. An annuity can begin immediately, or be deferred to a later date.

FINAL POINTS YOU SHOULD BE AWARE OF

Always think of your insurance program as part of your total financial plan. There isn't one perfect program which fits everybody. Family and individual needs and differences should be taken into account, and your financial plan and insurance program should be organized accordingly.

Discuss your plans not only with your insurance representative, but with an attorney or other people who are experienced in financial planning. Don't forget to make a will and, if you have one, to review it from time to time.

Buy insurance when you need it, and keep it for as long as you need it. As you go through the various stages in your life cycle, adjust your program accordingly. Compare policies to find the one which offers the coverage you want at a price you can afford. Compare the companies in terms of reputation and financial soundness.

Be aware that "putting off" insurance isn't a good answer to your insurance questions.

GLOSSARY OF LIFE INSURANCE TERMS

ANNUITY. A noninsurance method of providing income for retirement. Annuities protect you and your family if you continue to live. They can be paid in monthly installments in addition to Social Security or pension benefits. If insurance can be called protection against dying too soon, an annuity can be called protection against living too long.

AUTOMATIC PREMIUM LOAN. This is free of charge, but the agent has to be informed of it. It is an optional provision that pays the premium from your cash value should you miss a payment. It is recommended that the loan be paid back so that the face value of the policy will be reduced.

CASH VALUE. Savings portion of the policy which comes from the higher premiums paid during the policy's early years.

CREDIT LIFE INSURANCE is decreasing term insurance. In case of the owner's death, a credit life insurance policy would defray the unpaid balance of the loan.

CHARTERED LIFE UNDERWRITER (CLU). The equivalent of an advanced college degree for the insurance business. Other insurance education designations include: FLMI (Fellow Life Management Institute) and LUTC (Life Underwriters Training Council).

DISABILITY INCOME INSURANCE. Protects the insured by providing an income at a time when he/she is unable to work due to a disability. The policies usually supply 50-60% of the insured's monthly income (considered part of health insurance).

GRACE PERIOD. A 31-day period in which the insured can pay premiums that are due and retain the policy without paying any possible interest penalty or submitting to a physical exam.

GROUP LIFE INSURANCE. This is basically term insurance and will protect your dependents as long as you are with your present employer. It covers employees of a company under one master policy. In most cases, this type of policy can be converted to a whole life policy within 30 days after termination of employment. The premiums are relatively low and do not differ for the various age groups within the same company.

GUARANTEED ISSUE RIDER. Provides that the insured can purchase additional insurance regardless of any medical impairment at certain periods during his or her life.

HEALTH INSURANCE. This consists of basic hospitalization, major medical, and comprehensive insurance.

- Basic pays the hospital room and board and surgical fees.
- Major Medical pays hospital bills exceeding the basic coverage limits. Some supplemental or catastrophic major medical plans provide coverage of up to $250,000 or more.
- Comprehensive incorporates both basic and major medical plans. In addition, it pays doctor bills, prescription costs, and miscellaneous fees.
- Medicare provides government health insurance for people over 65.

INDUSTRIAL LIFE INSURANCE. Small insurance policies (under $1,000) that are sold by an agent who also collects the premiums, usually on a weekly basis.

LIFE INSURANCE: Protects your family from economic loss in case of your (the insured's) death.

INTEREST-ADJUSTED METHOD. A method used to compare policies' actual cost to the policy-owner.

MORTGAGE INSURANCE can be purchased as whole life, level term, or decreasing term. If purchased as decreasing term insurance, it would pay off the balance of the mortgage in case of death.

NONPARTICIPATING POLICIES. Dividends are not paid to insurance policyholders; the company's profits are distributed to stockholders in the form of dividends.

PARTICIPATING POLICIES. The company returns the unused portion of the insurance premiums to the policyholder in the form of a dividend. (Dividends are never guaranteed.)

"PIGGY-BACKING". Using the cash value of an older policy to purchase a new one. The older policy becomes either worthless or will be reduced by the amount deducted. Many times the consumer doesn't realize this. Also, the new policy is usually more expensive.

PREMIUM. This is the price you pay for your insurance. Premiums can be paid annually, semi-annually, quarterly, or monthly.

PROPERTY AND CASUALTY INSURANCE. Insurance that covers your auto, home, other property against risk of fire or theft and other perils. Also available are comprehensive insurance plans; for example, homeowners' insurance covering various risks in one policy.

TIME VALUE OF MONEY. This is the value a certain amount of money would have over a period of time (or in a given number of years) after it has been put to use to earn interest.

"TWISTING". Unjustified cashing in of a policy to buy a new one, upon advice. Think over your reasons for doing this.

WAIVER OF PREMIUM. This is a disability benefit which waives premiums after five or six months of disability.

QUIZ FOR UNIT III -- PLANNING FOR PROTECTION: LIFE INSURANCE

Dear Friend,

This quiz covers Fact Sheets 9, 10A, 10B, 10C, 11, and 12 of Unit III -- Life Insurance.

After reading the fact sheets, you are ready to complete the quiz. Feel free to refer to your fact sheets whenever necessary. Please follow the quiz instructions and return the quiz in the return envelope.*

Name _____

Address _____

_____ Zip _____

Instructions:

This quiz contains two types of questions, true-false and multiple choice.

True-false: Circle "T" if the statement is true and "F" if the statement is false.

Multiple choice: Select the best possible answer and write the corresponding letter in the blank provided.

1) T F Most insurance policyholders are either over- or underinsured.

2) T F The proper insurance plan takes into account only the policyholder's income.

3) T F Your original life insurance policy should take care of your family's needs throughout your entire life.

4) T F It is a good idea, but not easy, to comparison shop for life insurance.

5) T F Term insurance allows for a buildup of cash value and some savings.

6) T F An endowment policy is also considered a savings plan with term insurance.

7) T F Combination plans are good for meeting the needs of the family.

8) ____ Which type of insurance policy provides maximum amount of protection for low cost?

a. endowment
b. whole life
c. term

9) ____ A policyholder can borrow against which type of insurance policy?

a. term
b. whole life
c. both

10) ____ Riders are:

a. new policies
b. cash build-ups
c. additions to already existing policies

We would appreciate the following information to help us improve our service:

Have you used or shared any of this information from the fact sheets or do you plan to do so?*

Yes _____ No _____

If yes or no, please explain. (Please use reverse side for your comments.)

*Applicable only if this unit has been administered through a County Cooperative Extension office. If not, please complete the quiz and retain for your own benefit and reference.

Unit IV — Financial Aspects of Housing

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September 1979

YOUR MONEY MATTERS

Financial Aspects of Housing - UNIT IV FACT SHEET #13

IMPORTANT CONSIDERATIONS

Before you make any decisions, know ALL THE FACTS.

Many people let the excitement of buying a house--especially if it is their first--overrule their common sense. Don't let this happen to you. The emotional impact of financial problems stemming from house worries cannot be overestimated.

A main reason behind foreclosures on homes is that people buy without realizing all the costs involved in owning real estate.

SEVERAL IMPORTANT FACTORS

Have you considered that you are not just buying a house? You are becoming part of an entire community. Several factors influence the current and future value (appreciation) of your house and they must be considered.

Remember, buying a house may be your most important investment. Take time to consider all these factors:

- Distance from job. How far is it from where you work? Will you have increased transportation costs--repair, fuel, and insurance--and is your present car adequate?

- Growth or decline. The community you choose will have a direct influence on the eventual return on your investment. If it is a growing, sought-after community, chances are that the value of your house will appreciate; if it is not a growing, sought-after community, the value of your house may depreciate.

- Schools. The buyer can sometimes save on the purchasing price if he/she needn't compete with others who want to be close to schools. Those who insist on being in a particular school district might have to pay a premium.

- Appearance. A well-kept neighborhood, where surroundings are neat and clean, will enhance values.

- Surroundings. Are railroads and/or bus stops nearby? Are highways planned--perhaps right behind your backyard? Is the area commercially zoned? Are there large vacant lots, and how will they be developed? Is the value of the house consistent with others in the neighborhood?

Any one of these considerations need not be negative. For example, a commuter may want to be close to a railroad. The important point is to know the community before you buy, so that you don't get a rude awakening, economically or psychologically.

OTHER FACTORS

- Price bracket. An expensive house might not appreciate as much as a medium-priced house, just because there might not be as big a market for it when you want to sell.

- Tax rate. A community with very high or steeply rising property taxes are often the result of a large influx of population; more tax revenues are needed to build new schools and to offer increased public services.

- Consider the ages of your children and how important the community schools will be for your family. Decide if the increased services are an advantage you want and can afford.

CONSIDER THE PROS AND CONS OF OWNERSHIP

Advantages

- You can deduct property taxes and the interest portion of your mortgage payments from your taxable income.

- Paying off your house is a form of "forced savings." As you pay off your mortgage, you increase your equity. After saving gradually for 15, 20, or 30 years, you will own your home. Also, because we live in inflationary times, it is to your advantage that your payments remain the same. You need to realize, though, that the idea of variable mortgages is becoming more acceptable and that these and other types of new mortgage options may increase in the future.

- Because of increases in property values, many people have been able to make a profit when selling their homes.

- The buildup in equity can be a cushion against future financial difficulties and can figure in your overall retirement plans.

- If you borrow, keep in mind that the interest rate on your mortgage loan will be lower than on most consumer-type loans.

- If you borrow and pay back regularly, you will establish a good credit rating.

- Social aspects of home ownership are important, i.e., establishing family roots, caring for a house, using it as it relates to a person's value system.

Disadvantages

- If you take on a large mortgage obligation, you will most likely oblige yourself for a number of years. Many buyers overextend themselves and have no funds for unexpected money needs. If you default in mortgage payments, foreclosure follows.

- The money spent for principal, interest, taxes, and insurance will not be at your disposal. For example, you may have to forgo other investment opportunities, such as savings certificates or stocks because of the purchase of a house.

- Your funds are not liquid. It can take several months before you may be able to sell your house (let alone make a profit).

- In case of an abrupt move, a renter may lose one or two month's security rent, but a homeowner might lose much more on the resale price and prepayment penalty. This immobility, to some degree, is a consequence of homeownership and must be considered in major decisions, such as whether or not you should accept a new job that would require moving.

YOUR MONEY MATTERS

Financial Aspects of Housing - UNIT IV FACT SHEET #14

CONSIDER THE COST

Once you have decided that a house will be a good investment for you, stop and consider if you can really afford it.

GENERAL GUIDELINES

These are guidelines and points to consider:

. Purchasing price should not exceed two to three times the amount of your annual salary, depending on your downpayment, personal circumstances, net worth, the type of loan you obtain, etc.

. Monthly payments of principal, interest, and taxes should not exceed more than one week's pay--or 25 percent of your monthly take-home pay if you budget monthly.

. You may be able to safely adjust amounts upwards to about 35 percent of monthly take-home pay if:

- Your spouse will join work force or is already working.
- The wife is not of childbearing age, the family does not plan to have children or expect additional children, or both parents plan to continue working even if there are children.
- Increased income is expected.
- You are young with good professional prospects.
- You are willing to substantially alter your style of living and make sacrifices. Can you make do without new furniture or rugs or other "essentials" such as vacations or a new car for an extended period of time?

You and your family must be the judge of this. Make it a family discussion and decision.

. The FHA guidelines suggest that your total monthly housing expenses should not exceed 50 percent of your monthly take-home pay. The actual amount will vary according to such factors as number of dependents, status of health, personal circumstances, age, etc.

EXAMPLE:

Mr. Jones takes home $12,000 a year. Divided by 12 months, this is $1,000 per month. His mortgage payment at 25 percent of take-home pay would be $250 a month; at 35 percent, $350 a month.

NOTE: His total housing expenses should not exceed 50 percent or $500 per month.

MONTHLY EXPENSES

How do we determine how much we can afford to spend on a house each month?

Here's one way to figure it out:

	Example
1. Monthly take-home pay	$1,000.00
2. Deduct all monthly expenses, plus the amount you will set aside for savings. Don't include current housing costs and upkeep	480.00
Amount you can spend	$ 520.00

This sum must cover the monthly housing needs shown in the following list. Don't buy any house until you figure out your approximate monthly housing costs and whether you can afford them.

Don't forget that you will have to pay various fees and closing costs at the time of purchase.

Include these charges in your calculations:

Monthly Housing Costs:

1. Mortgage payments

   . principal portion
   . interest portion
   . property taxes--1/12 of annual assessment

You can keep your monthly mortgage payments relatively small by:

   . making the downpayment as large as possible

   . stretching out the payments over a longer period of time. This will cost more in interest but if your income increases, you can pay the loan off sooner by increasing the monthly mortgage payments.

- getting a relatively low interest rate on your mortgage. Shop around; you might be able to save up to 1 percent on the entire loan.
- keeping the amount of your loan in line with your overall income and spending pattern.

2. Homeowners' insurance

- monthly portion of annual premium (1/12 of yearly cost) for:
  - Packaged insurance, or
  - Separate coverage (hail, wind, accidents on your property, theft, etc.)
- insurance costs may be included in monthly mortgage costs and paid directly by the lender (in some states).

3. Property taxes

- usually property tax payments are included in mortgage costs and paid directly by the lender (e.g., in New Jersey).

You may be required to give the lender two months' worth of taxes which the lender holds in escrow. The lender can work with this money and will pay the taxes as they are due.

Watch the local papers for new developments in the property tax structure. You can sometimes foresee increases.

Ask yourself whether the community you are interested in is a growing one which will need more schools, roads, and recreational facilities. If the answer is "yes," it's likely that the local government will have to increase taxes accordingly.

4. Utilities - Ask the seller for actual utility bills.

- fuel for heat (ask the owner, costs vary)
- gas
- telephone
- electricity
- water

5. Regular Maintenance

- garden upkeep
- lawn mower
- tools
- painting
- wallpaper
- garbage

6. Major or minor repairs

- furnace and air conditioning equipment
- storm windows and doors
- roof leaks
- plumbing
- painting (inside and outside)

Don't forget that you will need to have money not only for the purchase of the house and keeping up with monthly household expenses, but also for expenses such as:

- moving costs
- closing costs (loan origination fee, legal fees, title insurance, etc.)
- taxes to be prepaid and put in escrow (deposit) account with the bank
- property insurance paid in escrow
- essentials such as storm windows, lawn mower, etc.
- any immediate repairs.

HOME IMPROVEMENT TIP

One architect gives the following advice: don't plan any major remodeling in the first year. Large amounts of money may be involved and many times the results prove to be disappointing. Living in the house may make you appreciate the existing floor plan or allow you to make the most satisfactory plans for changes.

YOUR MONEY MATTERS

Financial Aspects of Housing - UNIT IV FACT SHEET #15

THE PURCHASE AGREEMENT AND YOUR LAWYER

Once you know how much you can afford, decide how much you want to spend on a house. A couple with grown children may be happier in a smaller, less imposing house even though they could afford more. You may be better off buying a small home if you really prefer to have money for vacations and other luxuries.

GETTING A BETTER DEAL

Once you set your price, do try to get the most for your money. If someone is asking $55,900, they may settle for $53,000. Appliances and furnishings are sometimes part of the bargaining, too.

If the owner has to move and must sell the house in the middle of the winter, these considerations can work to your advantage. Most people house hunt in the spring and, with fewer people bidding on the house, you are more likely to get it at a lower price.

When your bid is accepted, you and the seller will legalize it with a purchase agreement and earnest money.

THE PURCHASE AGREEMENT (The example given is from New Jersey; other states' real estate firms might have different agreements)

Any contract which involves real property must be in writing according to the Statutes of Frauds. You will have to sign a purchase agreement or "contract to buy" with the seller and make a downpayment.

Most likely the realtor will handle affairs at this stage, especially if you are buying through him or her. He/she will use a standard purchase agreement form. This agreement, which you and the seller will sign, is a conditional sales contract and should, if possible, be checked by your lawyer. If you do not buy through a realtor, then definitely have the agreement drawn up or checked by your lawyer to ensure that your interests are protected.

The purchase agreement includes all the terms and conditions of the sale. It does not give you any title and you don't own anything yet. But the seller promises to deliver the deed to you, and you promise to pay for the "real property" (as opposed to "personal property") on a certain date if the conditions on the purchase agreement have been met.

NOTE: There is often a clause which states the date when you must have obtained a mortgage.

EARNEST MONEY

At this time, you will also give the seller a deposit called earnest money, usually several hundred dollars. Earnest money is money paid in advance to bind a contract. It is an assurance that you are serious in your intent to buy this house.

This is a serious legal step. If you change your mind later because you discover something about the property you don't like, or because of some other reason, you might forfeit the entire deposit.

CONTENTS OF A PURCHASE AGREEMENT

Make sure the purchase agreement contains:

. All items discussed in writing. If the seller told you that storm windows, the fireplace equipment, and the washer are included in the purchase price, it should say so in the purchase agreement, too.

. Final purchase price.

. How much earnest money (deposit) you have to put down.

. How long you have to fulfill your obligations--to secure a mortgage, get papers. How long the seller is bound. Any conditions under which the contract can be voided (if, for example, you can't get a mortgage).

. Any "easement or restrictive covenant" on the property. This refers to anything that will restrict your freedom of action regarding your property.

. Any leftover mortgage, if applicable. (This is an old mortgage which will be rolled over to the new owner, who then makes payments to the previous owner.)

. Confirmation that interest and taxes are to be prorated to the date of closing.

What happens if you fail to complete your part of the agreement? For instance, you change your mind and refuse to buy the house even after all the terms of the agreement have been met by the seller. If noted in the agreement, the earnest money will be applied as "damage" payment to the seller or broker. In some instances, you may be forced to buy the house.

NEEDING A LAWYER

The legal language involving real estate is about 900 years old. This is a very good reason to hire a lawyer; he/she can explain the terms to you.

Another reason for obtaining a lawyer is that you pay him/her to look out for your interest and to advise you if problems arise.

Your lawyer will search the title, make sure that it is "clear" and that there are no "clouds" on the property. This is finalized by getting a title abstract--recorded history of the property--from the county Recorder's Office.

"Clear"--Property is clear when there are no possible claims which could at at later date be made against the new owner which, in this case, is you.

An example of unclear property:

- Fifty years ago someone in the family did not sign over the deed to a new purchaser. The heir could show up and claim the property. These things do happen.

"Clouds"--Recorded or unrecorded restrictions on your property, or a recorded or unrecorded privilege of a neighbor making use of your property (easement).

Examples of possible clouds are:

- No permissions to build on the property or add onto the house, or restrictions as to the use of the property.

- An "easement" on the property - for instance, the next door neighbor used the driveway or passed over the backyard for many years and thinks he has the right to do so in the future.

Even when the title appears to be clear, an agency lending you money to buy real estate will usually insist on title insurance for the amount of the loan to protect it against future claims. It is to the buyer's benefit to get title insurance for the total value of the property to protect himself/herself also. The cost is less if both policies are paid at the closing or settlement.

THE CLOSING

This is the big day, the day of the property transfer. Buyer, seller, lawyer (in some states), and real estate agent usually meet for the closing.

When you meet with the seller in your banker's or lawyer's office, after closing costs are settled, you are given a deed, or mortgage. Now you have possession and title to the property.

The deed must then be recorded in the county clerk's office. In most cases your lawyer will take care of this.

The seller will pay the agreed-upon commission to the real estate broker. This is usually 6 to 7 percent. The seller will receive whatever is his/her share of ownership in the house. This equity is the purchase price minus what is still owed on the property and closing costs.

CLOSING COSTS AND LEGAL FEES

Most new home buyers are amazed that closing costs are so high. Find out from your lawyer or real estate agent at the beginning what the approximate costs will be. According to the Real Estate Procedures Act, it is the lender's responsibility to indicate the approximate closing cost to the buyer; your attorney can furnish you with the remaining cost estimate.

As a general rule of thumb, your closing costs and legal fees will amount to approximately 1 to 3 percent or more of the purchase price. (These are only guidelines as the cost varies from location to location, and states differ in closing costs that the buyer and seller must bear.) The following fees are likely to be included:

- Title insurance--To protect the lender and buyer against possible losses due to claims by other parties to the property's rights.
- Title search--To search into the property's history where all claims, liens, etc., have been recorded. Before it insures a client, the title insurance company will insist on a title search to see if the property is free and clear of all claims.
- Mortgage insurance--To protect the lender in case you default in your mortgage payments.
- Survey--To check the accuracy of the land description, and possible illegal encroachments on the property.

- Recording fee--To record the mortage and the deed.
- Credit-reporting fee--To find out about your credit rating and standing.
- Appraisal fee--To evaluate your property. Your lender will insist on this appraisal.
- Buyers' and sellers' lawyers' fees--Ask a mortgage banker, real estate broker, or call several lawyers in your area to learn current fees.

Don't forget that your mortgage lender is likely to require that you make a two-months' deposit on your property taxes in advance as escrow.

LEGAL PAPERS INVOLVED

- The deed--The legal document that transfers the title ("ownership") from the seller to you, the buyer.
- The mortgage note or bond--This contains:
  - your unconditional promise to repay the loan.
  - specifications as to the specific sum to be paid per year.
  - interest rate of loan.
  - an agreement on what happens if you should default (the entire amount may become due and payable at once).
  - a promise that you will have the premises insured, pay taxes, and keep the premises in reasonably good repair.
  - a statement that the note is secured by a mortgage.
- The survey
- The title insurance policy
- The mortgage--This is your pledge of the property to the lender and is his/her security for granting you the mortgage loan. It is your loan contract with the lender.

THE MONIES NEEDED FOR BUYING A HOUSE

The buyer will pay:

- closing costs (including lawyer's fees). Amount varies and depends on price of house, amount of search done, etc.; approximately 1 to 3 percent of the house price.
- possibly points charged on loan.

- any possible adjustments to be made; for example, you will have to reimburse the seller for the taxes he may have prepaid or vice versa.
- insurance if payable in advance.
- property taxes if payable in advance.
- purchase price to the seller. The purchase price will usually consist of:
  1. The earnest money paid at the time when you signed the purchase agreement.
  2. The mortgage loan (amount you borrow from the bank or other lender; this money is paid by the lender to the seller).
  3. Any additional cash payment (downpayment). Usually the earnest money and mortgage loan do not equal the purchase price.
- Escrow funds deposited with the lender or with a third party. This sum secures the lender against nonpayment by the borrower on items such as property taxes, hazard insurance, and any property assessments.

A TYPICAL EXAMPLE

Let us look at the following example. You are buying a house for $55,000.

$55,000	total purchase price
-2,750	earnest money (deposit already paid)
$52,250	
-43,000	mortgage loan secured
12,250	additional downpayment needed
+1,375	all closing costs and lawyer's fees
+ 380	extras (adjustment, escrow, etc.)
$14,005	CASH NEEDED ON CLOSING DAY

YOU HAVE OTHER HOUSING CHOICES

If you cannot or do not want to invest money in a single-family house, what other choices do you have?

THE MULTIPLE-FAMILY HOUSE

Many people buy a two- or four-family house and rent out one or more apartments to help with monthly mortgage payments.

The advantages include greater financial security for the future and reduced housing costs for the owner. But there are also disadvantages to owning a multiple-family house. Some people feel that they do not have enough privacy and that the tenants do not take care of their property. Tenants may call on the owners frequently for very minor reasons. Sometimes there may be ill-feelings because of the tenant-owner relationship.

THE COOPERATIVE

The land and building are owned or leased by a corporation, which in turn leases space to its shareholders. You, the shareholder, will have ownership rights in the entire apartment complex as you hold stocks in the corporation that owns the building. You are also entitled to a long-term lease on your unit. Since you own a proportionate share of the entire complex, you will pay your proportionate share of all costs. The following are figured as costs:

- the principal and interest on the mortgage loan (taken out by the corporation)
- taxes
- insurance
- maintenance and repairs
- salary for superintendent and manager
- landscaping

The above costs will vary with the vacancy rate. The more units occupied, the less you pay proportionately. If units are sold at less than they cost, this loss will be shared by all stockholders and vice versa.

With this type of ownership, you are often involved in policy meetings. Be sure you want this commitment. Also, majority consent is required before you can sell your unit, and the shareholders usually vote on anybody about to purchase a unit.

THE CONDOMINIUM

If you want to combine ownership with convenience, a condominium might be the right investment for you.

A condominium offers the feeling of ownership but, at the same time, carries less responsibility than owning a house. It may also be acquired at less cost. You will be the sole owner of one whole condominium unit.

If you cannot afford to pay cash, you will obtain a mortgage and get title to the property and a deed. You will usually pay taxes and insurance either directly or along with monthly mortgage payments of principal and interest to the lender.

The land on which the condominium complex is situated and all facilities used in common, such as halls, grounds, and laundry, are jointly owned by all.

You can usually sell or lease your condominium without permission of others. The property taxes and the interest are tax deductible.

As with the cooperative, you will pay a maintenance fee for cleaning and upkeep of the common areas.

THE MOBILE UNIT

Another increasingly popular choice is the mobile unit. It offers ownership and privacy at a relatively small expense. It solves the housing problem for many, especially those with low budgets and small families.

A mobile home can be purchased at relatively low cost, as the land is not included in the price.

In a mobile-home park, you pay a monthly rent for the use of the property. Lots are usually small, so rents are relatively inexpensive.

Maintenance costs are also low due to small lots and size of mobile homes.

In some states you may be able to purchase a home in a mobile home subdivision, which means that you would own both the home and the land.

Consider the disadvantages of a mobile home, too:

- Your mobile home usually depreciates (loses value) faster than a single-family home. A mobile home's lifespan is shorter. In inflationary times a mobile home, if located in a prosperous neighborhood and kept up well, can keep up with inflation and depreciate more slowly or even appreciate.
- If the unit is in a mobile-home park (and most are), you do not own the land.
- Mobile home loans are installment loans extended for a shorter time period than mortgages for houses.
- The interest on mobile-home loans will usually cost more than interest for mortgages.

- Carefully examine the site of the mobile-home park. Check for maintenance, deterioration, safety, etc.
- You will have a small yard and no basement, although some mobile homes are put on a foundation or basement.
- Be sure you have a space reserved at a mobile-home park before you purchase a mobile-home unit.
- Local zoning regulations sometimes forbid mobile homes on any private property. Inquire before you buy.

REMEMBER:

In any form of home ownership, prices fluctuate with supply and demand. You can sell at a loss or a profit depending on the market.

IN'S & OUT'S OF HOMEOWNERS' INSURANCE

WHAT IS HOMEOWNERS' INSURANCE?

Various types of insurance are available to homeowners, tenants, mobile homeowners, condominium owners, and shareholders of cooperative apartments, with the type of policy adapted to the needs of each.

Homeowners' insurance is a packaged insurance program. You can choose from various forms, depending on the number of risks you want to be insured against, and how much money you are willing to spend.

TYPES OF POLICIES

Basic Homeowners' Policy (HO-1)

Protects you against damage or loss from fire or lightning; windstorm or hail; smoke; vehicles; burglary and theft; explosion; aircraft; vandalism and malicious mischief; breakage of glass consisting as part of house (not included in HO-2 and HO-3); riot or civil commotion.

Broad Form (HO-2)

Will cover you against the basic 11 perils, and 7 additional perils, e.g., damage from falling objects; ice, snow; collapse of building, or any part thereof; freezing of plumbing, heating and air conditioning systems, and domestic appliances; accidental discharge, leakage or overflow of water or steam from within a plumbing, heating or air conditioning system or domestic appliance; tearing, cracking, etc. of hot water heating system or appliances; injury from electrical appliances, wiring, etc. (TV and radio tubes not included).

Comprehensive Policy Form (HO-5)

An all-risk policy (also more expensive than HO-1 or HO-2), which means that the individual perils don't have to be listed. You are covered against all risks, except those specified in the policy. Excluded, for instance, are floods, earthquake, backing up of sewers, tidal waves, war, etc. (Do consider buying flood insurance if it is available in your community and if your area is flood-prone.)

The following liability coverage is also included in every homeowner's plan:

Personal Liability Protection

Covers you if someone is injured on your property and you are held responsible or if the property of others is damaged (you happen to break a neighbor's vase, or your child throws a ball through a window). The insurance company will pay the legal costs involved in a court suit and whatever court settlements are reached up to the limits of the policy.

Medical Payments Coverage

Designed for smaller injuries occurring on your property or involving you and your family in some way even if occurring elsewhere. Payments are made by your insurance company, regardless of fault, up to the limit of your policy (usually several hundred dollars although larger amounts can be purchased). Examples: Your dog bites a neighbor, your child hits and injures a friend in a fight, etc.

Ask your insurance agent about separate coverage if you have people working for you on your property (cutting grass, baby sitting, cleaning your house, etc.). This will protect you in case they are injured on your property and you are held liable.

ADDITIONAL COVERAGE

Floaters

Separate "floaters" can also be bought to protect personal property of value greater than what would be included in the homeowners' policy--more than $1000, usually. Examples: silver, jewels, furs, antiques, art collections, etc.

Theft Coverage and Liability Protection

If you do not want the homeowners' packaged insurance plan or cannot obtain it, this type of policy can be purchased separately as an alternative. However, it must include one of the following:

- Fire Insurance--covers you against fire and lightning.
- Fire and Extended Coverage--covers against fire and lightning as well as wind, hail, smoke, vehicles, explosion, etc.

PROPERTIES COVERED IN A POLICY

Your house, garage, and other private structures (not for business) on your land are always covered. Many people are underinsured because they base their insurance

on market value. Insurance should be based on replacement cost--what it would cost to rebuild the same house with today's labor and material costs. Your insurance agent has the means to calculate replacement costs.

It is recommended that you should carry insurance on 80 percent of the replacement value of your property so that the insurance company will reimburse you in the entirety for partial losses. If you do not meet this 80 percent co-insurance clause, you will only be reimbursed for a proportionate share in case of a partial loss. In case of a total loss, you would be paid up to the limit of the policy. But be aware that most claims are for partial losses. For example: Your house (including land) has a market value of $38,000. Your insurance broker tells you, after careful calculations, that your particular house, with its special features, cannot be rebuilt for less than $55,000 in today's market. You should then carry insurance for at least 80 percent of $55,000, not just on $38,000. You may want to carry insurance for as much as 90 percent of replacement costs as an inflation guard.

If your home cannot be occupied because of damage caused by a peril you are insured against, your homeowners' policy will take care of the additional living expense of hotels, restaurants, etc., up to the limits stated in the policy.

The contents of your house are also insured under a homeowners' policy. Be aware that your insurance contract will always have a depreciation clause for furniture, household goods, etc. If you own expensive silverware, jewelry, antiques, art, ask your insurance agent about a "personal property floater" in addition to your general policy. Make sure that you have an itemized list of all your belongings in a safe place. In case of theft or fire, this list will be your proof of what has been lost. You may wish to take pictures of furniture, silver, etc. Pictures and copies of household inventories need to be kept in a safety deposit box.

A POLICY FOR THOSE WHO RENT (HO-4)

If you live in an apartment or rent the house you occupy, you can insure your household contents and personal belongings under the Contents Broad Form, or Tenants Form (HO-4). This policy includes the same 18 perils covered in HO-2. Since you do not own the dwelling or private structures, they are not insured under HO-4; however, your policy does provide coverage for additional living expense.

A SPECIAL FORM (HO-3)

If you want the greatest possible protection for your dwelling, but do not want to pay for this same extensive coverage on personal property, consider purchasing a Special Form (HO-3). This provides the same coverage for the dwelling and private structures as does Comprehensive Form (HO-5), while covering property for the same perils as in the Contents Broad Form (HO-4).

ADVANTAGES OF HOMEOWNERS' INSURANCE

The advantages of a packaged homeowners', tenants' or shareholders' policy are that:

- it is less expensive.
- it is easier to schedule (budget) one payment.
- it is less confusing--one policy covers everything.

Know the perils you are insured against, and don't be underinsured!

For comprehensive information about property insurance in general, send for a free copy of A FAMILY GUIDE TO PROPERTY AND LIABILITY INSURANCE from Insurance Information Institute, 110 William Street, New York, N.Y. 10038, or ask your real estate agent.

YOUR MONEY MATTERS

Financial Aspects of Housing - UNIT IV FACT SHEET #19

WHAT'S IN A MORTGAGE? GET TO KNOW THE TERMS

You are ready to buy a house. You will probably need to apply for a mortgage. Most people can afford only a cash downpayment when they buy a house, and have to finance the rest of the purchase price through a home mortgage loan.

Some people let the excitement of buying a house--especially if it is their first--overrule their feelings of caution. Yet the emotional impact of financial problems stemming from house worries cannot be overestimated. A main reason behind foreclosures on homes is that people buy without realizing the total cost of ownership.

Have you figured how much you can really afford? Your monthly expenses will include:

mortgage payments
taxes
insurance
utilities
house maintenance and repairs

VARYING INTEREST RATES

It pays to shop around for the most advantageous interest rate and contract terms. Interest rates will vary:

- with different lenders.
- with the size of the mortgage and the amount of downpayment. (The larger your downpayment, the smaller the net exposure of the lender will be. Thus, the interest rate will be lower.)
- with general conditions in the money market. (if the demand for money is stronger than the supply, interest rates will go higher, and vice versa.)
- with the type of mortgage--VA, FHA, conventional, etc.

In the past, the practice has been to have interest rates remain the same for the length of the mortgage contract. Some mortgage loan contracts now contain a variable interest rate clause which allows interest to be raised or lowered according to the general interest rates in the money market. Other types of mortgages are being tested and may become available in the future. It will pay to ask about types and costs of mortgages available and to determine the advantages and disadvantages for your situation.

IDEAL FINANCIAL TERMS

There are many terms and facts that you should be aware of when shopping for a mortgage.

The most favorable financial terms, regardless of where you get the mortgage, usually include:

- a large downpayment from you (except in times of prolonged inflation).
- the lowest interest rate available.
- as short a mortgage period as you can comfortably fit into your spending and savings plan; the shorter the period, the more you save on interest charges, which can amount to thousands of dollars.
- no prepayment penalty clause.
- no escrow requirements by bank (however, escrow can be a form of "forced savings").

Remember, you are offering the property as collateral for the mortgage loan. If you default on payments, the lending agency will foreclose.

WHEN SMALLER PAYMENTS ARE RIGHT

You may need to consider a loan which can be repaid with smaller monthly payments over a longer period of time (although you will pay a higher interest rate and more money for interest). If income increases over time, you may be able to make additional payments to reduce the principal. In times of prolonged inflation you will be paying off your loan with cheaper dollars. This might influence against paying off your loan early.

REFINANCING A MORTGAGE

This is changing or renegotiating a loan with different terms. Usually this is done to decrease the amount of monthly payments, over a longer period of time. Another purpose might be to use the equity for some other purpose. The interest rate at the time of refinancing is usually changed.

PAYMENT BREAK FOR YOUNG AND OLD FAMILIES

A relatively new option offered by some banking institutions and savings and loan associations allows the buyer to pay interest only and no principal during the first five years of the loan. This option is intended to make it possible for people with a limited current income but potential for greater future income to purchase a house.

Graduated payment mortgages (GPM) where the buyer makes smaller payments earlier and larger payments later, are another option available from Savings and Loan Associations and banks which are authorized to offer them. However, not all Savings and Loan Associations and banks offer them yet.

Another new type of mortgage is the reverse annuity mortgages which, if available, allows older homeowners to use their equity in their homes to pay for their mortage.

Variable rate mortgages, where the mortgage rate fluctuates with the interest rate in the money market, is another option that some financial institutions in California (where it can be offered) are experimenting with.

The decision to extend such terms will be made by the lender on the merits of each application.

Consumers need to understand that with this type of mortgage, they will make payments for five years, and at the end of that time, they will still owe the same amount of principal.

PREPAYMENT PENALTY CLAUSE

Sometimes people want to pay off the mortgage at a faster rate than stated in the contract in order to save on interest payments. This clause tells you how much of the loan you can prepay each year without a penalty, and if you pay a penalty, how much it will be. A penalty is charged by the lender to cover his or her expenses when you change the original terms of the loan within a specified time. Be expecially aware of this if you are likely to move frequently. For example, in New Jersey there may be a "3-2-1 Clause" included in the contract, allowing you to prepay a certain amount per year (approximately 20 percent). If you prepay over and above this sum, you would pay the following maximum penalty according to New Jersey law:

- 3 percent of the face amount of the mortgage in the first year.
- 2 percent in the second year.
- 1 percent in the third year, and nothing thereafter.

A conventional loan may or may not have a prepayment clause. When seeking a loan, it is to your advantage to ask for a prepayment clause allowing repayment ahead of schedule without a penalty or fee.

If you obtain an FHA mortgage, there is no prepayment penalty up to 15 percent of the original loan in each year. With a VA loan, there is no penalty whatsoever.

AMORTIZING A LOAN

This means that you make periodic payments (usually monthly) of interest and partial repayment of principal during the entire loan period. These payments remain the same over the life of the loan, and so will your total monthly payments unless taxes and insurance costs increase and they are included in your monthly payment to the bank. Since you pay interest only on what you owe, the interest portion of your mortgage is largest at the beginning when your outstanding debt is greatest.

In the middle and towards the later years of the loan period, you owe less, therefore the interest portion is less and the principal portion is largest.

ASSUMING A MORTGAGE

Sometimes you can assume or take over an existing mortgage. If the seller has owned his or her house for several years, it is likely that the existing mortgage has a lower interest rate. However, you will need a larger amount of cash for the downpayment--the difference between the purchase price and the balance due on the mortgage. If a large amount of the existing mortgage has been paid by the owner, and the property has appreciated, the difference may amount to a large sum of money.

BORROWING CASH FOR THE DOWNPAYMENT

It is considered risky to obtain a loan and use the cash as your downpayment when buying a house. You need to ask yourself, "If I do not have the money now, will I have it when payments come due?"

LATE CHARGES

Read and understand the penalty for late mortgage payments. Unless a grace period is granted, the entire unpaid balance on the loan is immediately due in most instances.

MORTGAGE HELP FOR WOMEN

Women or married couples who have had difficulty obtaining mortage money may be helped by new legislation. The new Federal Community and Development Act, Title 8, Public Law 93-383, as amended, forbids discrimination on the basis of sex in the area of mortgage loans or in selling or renting a house or apartment. This is also the case under the Equal Credit Opportunity Act.

Married couples should take note because the income of both husband and wife must be considered in applications for federal mortgages.

For more information, contact any office of the U.S. Department of Housing and Urban Development.

YOUR MONEY MATTERS

Financial Aspects of Housing - UNIT IV FACT SHEET #20

TYPES OF MORTGAGES

You've found the house you think you'd like to buy. Now you are concerned about how to finance it and what type of mortgage to get. Which is best? What are the differences between the various types?

CONVENTIONAL MORTGAGE

Savings and loan associations, savings banks, commercial banks, life insurance companies, and other private lenders offer long-term mortgage loans. The real estate you are buying is used as security for the lender.

A few points to remember about conventional mortgages are:

- About 3/4 of all mortgages are financed the conventional way.
- You are eligible if you have a good credit rating, the required downpayment, and enough income to handle the monthly payments.
- The average loan is approximately 75 percent of the purchase price. This means you have to pay the balance--1/4 to 1/3 of the price--in the down-payment.
- Savings and loan associations and banks often hold to a general rule: not more than 35 percent of the buyer's monthly net income should be used for the mortgage payments (including principal, interest, taxes.)
- Usually mortgages allow 25- to 30-year periods for repayment. You can arrange for a longer period. Although your payments will be slightly smaller, interest costs will be greater.
- Mortgage rates change periodically. They are generally influenced by the state of the economy, and the interest rates in the money market. In particular they depend on the size of the loan and the amount of the down-payment. It should be noted that within the mortgage market, there is a range of flexibility from one lender to another. Consumers need to shop around and compare mortgage interest rates, amount of downpayment required, repayment terms, etc. For example, in 1979, a bank in New Jersey determined the interest as follows:

AMOUNT OF DOWNPAYMENT	MORTGAGE INTEREST RATE
25 - 39% Down	10 1/2%
40 - 49% Down	10 1/4%
50% + Down	10

- You will have a short waiting time to find out if your loan application has been approved (approx. 2-3 weeks).
- Be aware that the costs of processing the mortgage loan will differ somewhat from lender to lender.
- Most likely you will have a prepayment penalty clause in your contract (depending on the state).

For more specific information as it pertains to you and your family, contact an officer in the mortgage loan department of a local bank or savings and loan association.

If you find that you are not eligible for a conventional mortgage, you might want to apply for a VA or FHA insured loan. Your local banker will tell you which financial institution handles these loans.

VA MORTGAGE

The Veterans Administration is a government agency which guarantees mortgage loans. It promises the lending bank or agency that, in case of foreclosure, it will pay the lender 60 percent, up to a maximum of $25,000.

Eligible veterans should inquire about this type of financing. A veteran can request and obtain a certificate of eligibility from the Veterans Administration, then find a house and go to the lending agency to apply for a loan. The bank then inquires about the veteran's wages and sees if he, as a prospective buyer, can "carry" the house.

Several points to keep in mind about VA mortgages include:

- Usually no downpayment is required.
- There are usually lower interest rates, but the buyer may have to pay a loan origination charge.
- The seller may also be charged. For this reason, the seller may increase the price of the house for VA mortgage consumers.
- Repayment time is up to 30 years.
- There is no prepayment penalty.
- There is no cost for mortgage insurance premium.

For further information, write to the Veterans Administration's regional office nearest you.

FHA INSURED LOAN

The Federal Housing Administration is a government agency which insures loans and guarantees the lender that it will pay certain losses in the event of foreclosure.

The FHA helps people who might not otherwise qualify for a conventional mortgage loan because they do not have enough income or money for a sizeable downpayment.

The FHA appraises the value of the house and gives this information to the bank from which you are seeking a mortgage. (It does not "approve" them as is sometimes misrepresented.) Ask the lender what the appraised value is. Then you will know if the price which is being asked for the house is in line with the market value. (Example: Appraised value is $49,000. Seller asks $55,000. Are you still willing to buy? Maybe you can bring the price down.)

Your bank or savings and loan association may handle FHA insured mortgage loans.

Characteristics of FHA insured loans (subject to change) are:

- Downpayments are smaller, as low as 5 to 10 percent.
- The repayment time period is as long as 30 to 35 years.
- The buyer can repay up to 15 percent per year without incurring a penalty.
- The buyer is sometimes charged a lower interest rate because of the lower risk to the lender.
- A mortgage insurance premium of 1/2 of 1 percent on the declining balance of the loan will be charged.
- The buyer can also be charged the maximum of "one point." One point is considered to be one percent of the mortgage. (Example: Mortgage is $35,000, 1%= $350=1 point.) You also pay an application fee.
- The seller will often increase the price of the house, and indirectly pass the extra charge onto the buyer. This is because the lender may charge the seller additional points when FHA loans are secured.
- There is often a longer waiting time for mortgage approval. It can extend to a month or more.

For further information and literature on federally insured mortgage loans, write to the Department of Housing and Urban Development, Federal Housing Administration, in your area.

PRIVATE MORTGAGE INSURANCE

If you can only afford a small downpayment, you might need a larger loan than you are able to obtain with a conventional mortgage. Private mortgage insurance (PMI) companies will insure the mortgage loans of qualified applicants. Although you will pay extra for this insurance, the availability of private mortgage insurance reduces risks to the lender, who will then be able to extend higher percentage loans to you than their typical lending policy would normally permit.

EXAMPLE: The bank requires a minimum downpayment of 20 percent. A qualified applicant who does not have this downpayment, but could put down 10 percent, could thus apply for a conventional mortgage loan with private mortgage insurance.

Since houses are increasingly expensive, many families find themselves priced out of the housing market. Young families frequently cannot afford the required downpayment. Private mortgage insurance enables those families, where the breadwinner has a "promising" future but not the present income or downpayment to go along with it, to obtain a mortgage.

Points to keep in mind about this type of mortgage insurance (subject to change) are:

- Qualified applicants may be able to get loans of up to 95 percent of purchasing price with private mortgage insurance in times of "easy credit."
- Loans will be insured up to $36,000 on a 95 percent loan, and up to $45,000 on a 90 percent loan.
- You will pay a premium to obtain this insurance on a conventional loan. This will either be a flat fee (approximately 2 percent) or about 1/2 percent of the mortgage in the first year and 1/4 percent thereafter.

Ask your lender if he/she handles privately insured mortgages; not all lenders do.

FARMERS HOME ADMINISTRATION MORTGAGE

This type of mortgage loan, administered by the U.S. Department of Agriculture, is designed for low- and medium-income rural families who need housing but cannot obtain or afford it through regular channels.

Characteristics of this loan (subject to change) include:

- The interest rate is as low as 6 percent.
- The maximum payment period is 40 years, while the minimum repayment period is 33 years.
- There is no downpayment required.
- The amount of the loan is based on the applicant's eligibility.
- The mortgage is insured.

Note: Please be aware that mortgage terms and interest rates can change from time to time according to economic conditions.

For more detailed information, contact the regional office of the Farmers Home Administration in your area.

FINAL THOUGHTS ON MORTGAGES

RISKS OF ADDITIONAL FINANCING

There are certain facts you should keep in mind when considering the possibility of additional loans on your home.

HOME IMPROVEMENT LOANS

Banks and savings and loan associations and sometimes credit unions can make FHA Title I and similar loans if you need to finance large repairs or want to build an addition to your house. You will need some form of documentation as to the nature of the improvements you are planning--an estimate from a roofer, for instance.

The risk to the lender is greater with this type of loan than with a regular first mortgage and you will most likely be charged 3 to 4% more than the going rate for a first mortgage (for example, a 10½% interest rate on the first mortgage and a 12% rate--even 14% or more--on the home improvement loan).

You pledge any equity you have built up in the house as security for the loan. You will have a second lien on your property in addition to your first mortgage. You still hold the title to the property, but if you should default on the loan (fail to pay when required), the lender can and will foreclose, even if you are still meeting your regular mortgage payments. Consider this type of loan only for projects with long-term benefits.

Check with your local bank or savings and loan association to learn the latest ceiling on home improvement loans and the time limit set for repayment.

SECOND MORTGAGES

As the name implies, second mortgages are taken out by homeowners on top of their existing mortgage. Second mortgages can be extended for many reasons, such as consolidation of debts, home improvements, vacations, or luxuries. States vary widely in the regulation of these second mortgages and the companies who can offer them. The following example illustrates how second mortgages are regulated in the State of New Jersey (as per January 1979). Under the New Jersey Secondary Mortgage Loan Act, finance companies and other institutions licensed under the act are presently permitted to extend second mortgage loans at 15% annual interest, although the commissioner does have the power to raise this to 18%. There are no legal limits on the size of the loan or the length of time for which it may be made.

The lender sets the terms of each loan on the basis of your financial situation and the equity you have in your house.

Again, you will have a second lien on your house and you will be making a long-term commitment at relatively high interest rates. Your daily needs will still be the same.

Second mortgages do serve a valid purpose and fill needs, but consider the purpose and length of time before taking on such an obligation.

FORECLOSURE

This means that your home is sold to pay delinquent mortgage debts. You will also be liable for legal fees, court costs, and all other debts not covered by the proceeds of the sale.

The following are some of the reasons for foreclosures as shown in an analysis done by the Council of Better Business Bureau:

- Insufficient funds at time of purchase
- Home too expensive in relation to income
- Poorly built house which required unexpected maintenance and repair
- Decrease in income
- Marital discord

LIFE INSURANCE AS MORTGAGE PROTECTION

It is advisable that you protect your dependents by buying life insurance of some kind before you take out a mortgage. Many times lenders will insist on it. On the other hand you may already have enough insurance protection prior to the purchase of a house and may not need additional coverage.

Term Insurance--provides life insurance for a given period of time (usually for a specific number of years) up to age 65. Some term policies are renewable at the end of each term, but the premium is higher each time it is renewed. Term insurance provides the largest amount of protection for the lowest immediate cost.

Decreasing Term Insurance--is sometimes called mortgage protection insurance. It may be issued for the same length of time as a mortgage. The face value of the policy decreases as the principal is reduced through mortgage payments.

Whole or Straight Life Insurance--is for a lifetime with premiums payable until death. The premium payment remains constant and builds a cash value.

When buying property, review your current insurance policies and determine how to best cover additional risks, and also whether you need additional coverage in view of your new debt. Contact several insurance companies to learn the types and combinations of insurance they would recommend and their costs.

QUIZ FOR UNIT IV -- FINANCIAL ASPECTS OF HOUSING

Dear Friend,

This quiz covers Fact Sheets 13 through 18 of Unit IV -- Financial Aspects of Housing.

After reading the fact sheets, you are ready to complete the quiz. Feel free to refer to your fact sheets whenever necessary. Please follow the quiz instructions and return the quiz in the return envelope.*

Name _____

Address _____

_____ Zip _____

Instructions:

This quiz contains three types of questions, true-false, multiple choice, and matching.

True-false: Circle "T" if the statement is true and "F" if the statement is false.

Multiple choice: Select the best possible answer and write the corresponding letter in the blank provided.

Matching: Match the categories on the right with the correct characteristics on the left.

1) T F Property taxes and the interest portion of mortgage payments can be deducted from taxable income.

2) ____ Generally, monthly payments of principal, interest, and taxes should not exceed more than:

   a. one week's pay
   b. two weeks' pay
   c. three weeks' pay

3) ____ You may get a lower price if you house hunt in the:

   a. summer
   b. fall
   c. winter
   d. spring

4) T F A purchase agreement includes all terms and conditions of the sale, but does not give the buyer the title to the property.

5) T F Earnest money is always returned if you change your mind about buying the house.

6) ____ "Clouds" on property are:

a. disputes over property boundaries
b. restrictions on property, either recorded or unrecorded
c. defects in the house itself
d. closing costs

7) Match the following:

_____	a. Depreciates faster than single-family home	1. Cooperative Apartment
_____	b. Shareholders share ownership of entire complex	2. Mobile Home
_____	c. Sections of house are rented out to help with mortgage payments	3. Multiple-Family House
		4. Condominium
_____	d. Share ownership of land, but each unit is owned separately	5. Single-Family House

We would appreciate the following information to help us improve our service:

Have you used or shared any of this information from the fact sheets or do you plan to do so?*

Yes _____ No _____

If yes, in what way?

*Applicable only if this unit has been administered through a County Cooperative Extension office. If not, please complete the quiz and retain for your own benefit and reference.

Unit V — Making Your Money Grow

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WHAT SAVING CAN DO FOR YOU

Saving means putting money aside from present earnings in order to provide for a known or unexpected need in the future.

It is an integral part of family and personal financial planning. The decision to save or not will influence your future, your standard of living at retirement, and your present level of living as well.

The more you are able to save, the more security you may have in your future years; at present, however, it may mean that you need to lower your standard of living or adjust your lifestyle accordingly.

Individuals or families need to set goals for themselves and to think in terms of their reasons for saving. They should then calculate how much money they can put aside, and determine where to put their hard-earned savings. To do this, they will need to set up guidelines for themselves as to how much they can save and how closely they should stick to the guidelines. These guidelines will help steer them toward a prosperous and independent future.

WHY SAVE?

The reasons for saving are manifold, depending on such factors as age, education, job, stage in life cycle, and number of children. The following are some examples of why people feel savings are important to them:

- coping with emergency problems--short-term needs which might arise, unexpected occurrences, unemployment, switch of job or career.
- buying a car (downpayment or cash).
- educating your children or yourself.
- purchasing a major appliance, furniture, boat, household goods, home, condominium, mobile home, cooperative apartment, second or vacation home.
- financing your child's wedding.
- supplementing retirement income.
- saving for a vacation or leisure activity.
- building financial independence for yourself or your family through investments in stocks, bonds, or real estate.
- providing for religious and cultural ceremonies (confirmation, bar mitzvah, sweet sixteen party).
- purchasing gifts (holidays, birthdays).

HOW MUCH MONEY SHOULD YOU PUT ASIDE?

A general rule of thumb is to have at least three months' worth of savings in your savings account. Some financial experts say this figure should provide income for six months or even a year.

The average savings for American families is approximately 5 to 7% of their income per year.

How much money you put aside will have to be determined by you after analyzing your personal circumstances such as: age, present and future earning power, and number of dependents. For example, ask yourself the following questions: What will I need? How will I provide for my children's education? How will I provide for any major unexpected expenses, such as medical costs or the necessary purchase of a car? You will need to take a short-term as well as a long-term look at your aspirations and goals.

STAGES IN THE LIFE CYCLE

In every person's life there are stages when the need arises to reflect on where one is, where one has been, and the direction in which one is going.

Financially speaking, some of the most important cornerstones are:

- getting a job and becoming "independent"
- getting married
- starting a family
- sending youngsters off to college; planning their weddings
- preparing for retirement

Savings should enter the picture (at the latest) before marriage, as there should be discussions on jointly held values regarding money, future job aspirations, size of expected family, etc. Attitudes about financial matters need to be discussed and some tentative savings plans should be made at that time. Also, if both spouses are going to work, there should be an understanding as to what their cumulative funds should accomplish. If this is not done, monies may just pay for an increase in the standard of living (new car, clothes, vacation, etc.) and will not cover unforeseen expenditures or future savings.

A word needs to be added regarding plans to start a family. College costs are soaring and parents would be wise to start a college education fund for their children at a young age.

When youngsters leave for college, parents will find themselves either tremendously burdened financially or relieved--depending upon how provisions have been made for the schooling. If youngsters start to work after high school or are able to receive a scholarship, the parents will have funds available to start a strong savings program. This is often the time when individual earning is very high. Efforts should be made by the parents to accumulate savings for future retirement needs.

HOW TO SAVE

The following are some tips on the mechanics of saving:

- Saving regularly and in relatively small amounts is generally more effective than putting aside larger sums but at more sporadic intervals.

- Savings is a habit therefore, "paying yourself first" is a proven method of successful accumulation of money. It means that you include some saving (e.g., $15.00 per paycheck) as a fixed expense in your budget. Fixed expenses are obligatory payments such as mortgage, rent, or payments on an installment contract. You can save either by depositing the agreed-upon sum in an account yourself, or through payroll deductions, thus accumulating U.S. Savings Bonds or funds in your credit union account.

- It is a good idea to utilize different types of savings accounts and "stagger" them, then label them according to your objectives. The following are some examples:

  Short-term savings account, such as a regular savings account, to meet short-term needs (paying of irregular future fixed expenses-- e.g., insurance payments due in June). Monies would be saved at regular intervals towards that goal.

  Short- or intermediate-term savings account for a specific goal (e.g., the purchase of a new car or major appliance).

  Intermediate-term account for specific purposes (e.g., house); either in savings accounts or four-year certificates of deposit.

  Long-term account for long-term savings such as a seven-year certificate of deposit (no specific reason; may be used to plan for future, estate building, etc.).

YOUR MONEY MATTERS

Making Your Money Grow - UNIT V FACT SHEET #23

GUIDELINES FOR ESTABLISHING YOUR PERSONAL OR FAMILY SAVINGS PLAN

A good savings plan is like a fine custom-made suit. Both are designed with a specific person in mind. If individual details are taken into consideration, the finished product will fit adequately where needed but will still allow room for expansion.

The following are steps you can take towards developing a personal savings plan:

ANALYZE YOUR PERSONAL SITUATION AND ATTITUDES

Your personal circumstances--income, marital status, number of dependents, and whether you have an adequate emergency cushion--play an important part in determining your objectives. Temperament, age, style of living, personal values, professional goals, and future expectations are also important factors.

Age, for example, and the security a person feels on the job will determine whether monies should be put aside primarily in savings accounts, or invested in stocks. If a person needs steady income but is at the retirement state, he/she might choose certificates of deposit which offer steady income instead of stocks, because stocks fluctuate in price while certificates do not. Temperament and emotional make-up will determine whether you are willing to take chances with your money.

Many married women have gone back to work, and are bringing home an extra income. The salary need not be used entirely to increase the standard of living or to make ends meet. It can be saved and spent prudently with greater emphasis placed on a long-term savings and investment program with potential advantageous results.

IDENTIFY YOUR FINANCIAL GOALS AND OBJECTIVES

What are you really looking for? What are your objectives for your family? As you develop your own financial plan, consider the following:

- One person may have a great need for security and find it necessary to have his or her savings in the safest possible place. He/she would not consider taking any risk in order to get a possible higher return.
- Another person, however, might feel the opposite way, taking chances and aiming for a maximum investment growth, or opting for the greatest possible income.
- Then there is the individual or family to whom a guaranteed steady income is of great importance.
- Another may be looking for the greatest possible return and not mind sacrificing financial safety.

What are your objectives? Do you want ready access to your funds at all times? Or are you looking for a hedge against inflation, or tax savings? Needless to say, one cannot have all of the above goals at the same time.

Examine your major savings and investment goals. Which ones most readily describe your situation?

- Principal is safe (you need a feeling of financial security)
- Return is guaranteed
- Income is steady
- Funds can be withdrawn without penalty or loss of interest (for emergency reasons)
- Greatest possible income is derived
- Investment growth is the goal (with available funds to protect against inflation)
- Tax advantage is featured
- Purchasing power is protected (hedge against inflation)

You need to keep in mind that no single investment will serve all of the above purposes. In general, the safer your principal, the lower your rate of return. The higher the potential or promised appreciation or return on your money, the higher your risk.

CONSIDER YOUR PRESENT FINANCIAL SITUATION

The day you begin thinking about money is actually the first stage of your financial planning program. Examine your personal situation, values, and family attitudes about money. Write down some specific short- and long-term goals.

Examine these goals again. Do they still apply, or has your reading and thinking about money caused you to change some of your ideas? If this has happened, take some time to update your list.

You also need to prepare a family budget by calculating net income, examining daily expenditures, and anticipating all of the fixed and flexible expenses your family will face during the coming year. List your net income, subtract total expenditures, and determine the remainder which is yours to do with as you please. <u>This remainder is our major interest</u> because a certain portion of it can be set aside for <u>savings</u>.

How is your family doing financially? Are you improving yearly or just barely holding your position?

With proper planning over a specified period of time, you can actually restructure your financial picture.

BECOME AWARE OF YOUR OPTIONS

Before putting money aside for long-term savings or investments, a family should establish a checking or savings account.

A poll was taken not long ago in which adults were asked the question: Where do you put your money once you have saved it regularly? Seventy-four percent of the people surveyed said they had savings accounts and 61% of the group had money in life insurance, meaning money in the cash surrender value of their life insurance policy. Another 32% said they had U.S. Savings Bonds, 31% had money in real estate, and 20% had money in stocks and bonds. Although many of these investments carry different risks and produce varying returns, the survey demonstrates that Americans are concerned about their savings and want to invest them wisely.

A family interested in saving or investing has many options in fixed dollar and flexible dollar investments to consider. These include:

- checking accounts
- savings accounts
- U.S. Savings Bonds E and H
- certificates of deposit
- stocks
- bonds
- mutual funds
- purchase of a home
- income-producing real estate
- antiques
- coins and stamps
- works of art
- annuities

None of these choices are necessarily the best or inadvisable for a given family. However, they do need to be considered carefully in terms of risk, flexibility, and the family's present and future financial needs.

YOUR MONEY MATTERS

Making Your Money Grow - UNIT V FACT SHEET #24

INCREASING YOUR SAVINGS

Saving regularly, even in small amounts, can significantly improve your financial situation in the near and distant future.

Once you have made the decision to put money aside, you have a number of options available to help you carry out your goals.

SAVINGS INSTITUTIONS AND THEIR CHARACTERISTICS

Financial institutions offer a variety of banking services.*

- Savings and Loan Associations and Savings Banks often offer somewhat higher interest rates than commercial banks do. They also may require a lower downpayment and slightly lower interest rates on home mortgages. On the other hand, if you need credit for a car loan or credit cards, for example, this type of institution cannot accommodate you. (Home improvement loans are available, however.)

- Commercial Banks, which are also called department stores of finance, offer a great variety of services to their customers. These include checking accounts, savings accounts, overdraft checking accounts, safety deposit boxes, traveler's checks, long-term and short-term personal credit, and mortgages.

- Credit Unions are owned by their depositors. The members are all employees of one company, or members of an individual church or community organization. Credit unions encourage thrift and regular savings through the automatic payroll deduction plan. They offer credit to their members, e.g., home improvement, college loans, car loans, or personal loans. In recent years, credit unions have undergone great expansion and growth. Some even offer home mortgages to their clients. Interest rates on deposits, or dividends on shares, are usually slightly higher than those offered by other institutions. Frequent withdrawals are not encouraged.

- Insurance Companies offer another savings option for families. For example, when you buy a permanent type of life insurance, e.g., whole life insurance, you build up cash value over the years. Consumers can borrow against their

* See the chart included with this fact sheet, "Differences in Savings Characteristics" for a comparison of services, safety of funds, etc.

DIFFERENCES IN SAVINGS CHARACTERISTICS

	Checking Account	Regular Savings Account	Certificate of Deposit	U.S. Savings Bond E & H
Principal is safe (your original savings)	Yes	Yes	Yes	Yes
Return is guaranteed	No	Yes	Yes	Yes
Income is steady	No	Yes	Yes	Yes
Greatest possible income is derived	No	No	No	No
Funds can be withdrawn without penalty or loss of interest	Yes	Yes	No	No
Investment growth is the goal	N/A	N/A	N/A	N/A
Tax advantage is featured	No	No	No	possible
Purchasing power is protected (Hedge against inflation)	No	possible but not likely	possible	possible but not likely

N/A = not applicable

cash value at relatively low cost while the policy remains in force. Once retired, and not in need of life insurance, some consumers choose to let their policies lapse. They can then take the cash value and deposit it into a savings certificate or other savings option which will earn interest.

THE POWER OF COMPOUND INTEREST

In the "old days," people who wished to save their money put it under a mattress or in some other "safe" spot. Unfortunately, these home savings were not always as safe as people assumed, and the money did not increase in value. Fortunately for all of us, money that is put aside in savings institutions is safe and grows for us because of compound interest.

The power of compound interest means that you earn interest on your deposit. This is then added on to your original deposit and becomes a larger deposit which earns interest. Thus a regular savings plan, involving even relatively small monthly deposits, can add greatly to the growth of your savings over the long run.

The following two examples will illustrate the above points vividly: Chart I illustrates how various amounts build up starting from when a child is 1 to when he/she is 17, if parents put aside certain sums of money on a regular basis. The chart can also be used for calculating how various amounts (e.g., $5, $10, $20, $25, $50, $100) build up to a sizeable amount after 1, 2, . . . or 17 years, regardless of the purpose. For example, if you put aside $20 a month regularly, beginning with the time a child is 1 year old, you will have $6,604.31 available for him/her at age 17 (a total of 16 years of regular saving of a relatively small amount). Saving regularly and the power of compounding of interest make the above growth of capital possible.

Use Chart I to plan a savings fund for the child. This chart is based on a 5 1/4% rate per year, compounded daily.

Chart I

MONTHLY GROW POWER

Starting at Child's Present Age	Here's how various amounts build up by the time your child is 18					
	$5 monthly	$10 monthly	$20 monthly	$25 monthly	$50 monthly	$100 monthly
0	1801.75	3603.50	7207.29	9009.04	18018.07	36036.15
1	1651.01	3302.02	6604.31	8255.32	16510.63	33021.26
2	1507.98	3015.96	6032.16	7540.14	15080.28	30160.57
3	1372.26	2744.53	5489.28	6861.54	13723.09	27446.18
4	1243.49	2486.98	4974.16	6217.65	12435.31	24870.61
5	1121.30	2242.60	4485.39	5606.69	11213.39	22426.77
6	1005.36	2010.73	4021.62	5026.98	10053.96	20107.91
7	895.35	1790.71	3581.56	4476.91	8953.83	17907.65
8	790.97	1581.94	3164.01	3954.98	7909.96	15819.92
9	691.93	1383.85	2767.81	3459.74	6919.48	13838.96
10	597.95	1195.89	2391.88	2989.83	5979.66	11959.31
11	508.77	1017.55	2035.18	2543.95	5087.90	10175.80
12	424.16	848.32	1696.71	2120.87	4241.75	8483.49
13	343.88	687.75	1375.56	1719.44	3438.87	6877.74
14	267.70	535.39	1070.83	1338.53	2677.06	5354.12
15	195.41	390.83	781.69	977.10	1954.21	3908.41
16	126.83	253.66	507.33	634.16	1268.32	2536.65
17	61.75	123.50	247.01	308.76	617.52	1235.04

Chart II illustrates how given amounts grow at a rate of 5 1/4% a year, compounded daily, when left in your savings account for various periods of time. (Charts I and II - courtesy of Federal Savings and Loan Association, Westfield, N.J.).

Chart II

HOW FIXED AMOUNTS GROW

How Savings Grow	$50	$100	$500	$1,000	$5,000	$10,000
6 mos.	51.34	102.69	513.47	1026.95	5134.75	10269.50
1 year	52.70	105.39	526.95	1053.90	5269.50	10539.00
2 years	55.54	111.07	555.35	1110.71	5553.53	11107.05
3 years	58.34	116.67	583.36	1166.72	5833.61	11667.22
4 years	61.48	122.96	614.80	1229.61	6148.04	12296.09
5 years	64.79	129.59	647.94	1295.88	6479.42	12958.84
10 years	84.24	168.49	842.43	1684.86	8424.29	16848.58
20 years	142.41	284.81	1424.06	2848.11	14240.57	28481.14

TYPES OF ACCOUNTS (Where to Put Your Fixed Dollar Savings)

When you deposit money into a savings institution, it will increase its value in varying amounts, depending upon the type of account you choose.

- Regular savings accounts are completely flexible. You can open an account by depositing any amount (except accounts with credit unions which require a $5 deposit). Earnings are added at regular intervals and compounded.

- Certificates of deposit are accounts which offer a higher rate of return than the "regular" savings account. But the depositor agrees to deposit a minimum amount (e.g., $500, $1000) for a longer specified period of time (e.g., 1 year, 2 years, 4 years, 7 years). Your money earns interest from the day you open an account to the date of maturity. Funds can usually be withdrawn at any time, but if you do so before maturity, a lower earning rate is paid and you forfeit some interest. Your certificates may automatically be renewed by the institution at the prevailing interest rate if you fail to cash in the certificates on the maturity date.

  More recent certificates issued by institutions include 6-month certificates, yielding around 9%, requiring an investment of $10,000. Interest is forfeited if the certificates are cashed in before maturity. Interest rate fluctuates with changes in the money market.

For an example of types of accounts offered by savings institutions and interest rates, see the attached chart, "Types of Savings Accounts That May Be issued by Savings and Loan Associations in New Jersey."

- Other choices

  In addition to the savings approaches listed above, there are other ways families can save on a regular basis. These include: Christmas Clubs, vacation clubs, school savings accounts, organization accounts, and payroll deduction accounts.

  Christmas and vacation club accounts serve the primary goal of providing for the fulfillment of specific and foreseen events; saving occurs in small amounts and almost painlessly. Money deposited in accounts such as these does not usually earn a high amount of interest, sometimes none at all.

  Organization accounts include accounts opened by nonprofit community clubs (such as garden clubs) and also investment club accounts, where members deposit monies in between purchases of stocks to earn interest.

  Payroll deduction accounts include share accounts held with a credit union, and automatic deductions by the employer. An amount specified by the employee is automatically deposited into the employee's savings account with a credit union. Some employees choose to purchase a U.S. Savings Bond and have it transferred to their checking accounts. If,

for any reason, a payroll deduction account is not available, you may make arrangements with your bank for a specified amount to be withdrawn automatically from your checking account each month and transferred to your savings account.

OTHER FIXED DOLLAR SAVINGS (Savings Bonds and Annuities)

In addition to establishing regular savings accounts, many families supplement their savings by purchasing U.S. Government Series E and H Bonds.

Savings Bonds*

. U.S. Government Bonds Series E (new EE Series scheduled for 1980)

These are discount bonds sold in small or large denominations (e.g., face value $50), up to a maximum of $10,000. When you purchase bonds, you pay $37.50 or $7,500 respectively, and receive the face value of $50 or $10,000 at maturity date (5 years after issued). The difference is the interest you earned (at present 6½%). Savings bonds offer the highest degree of safety. They are liquid, which means they can be converted easily into cash (after an initial period of a few months). However, some interest is forfeited if monies are withdrawn earlier than at the maturity date.

. U.S. Government Bonds Series H (new HH Series scheduled for 1980)

These are called income bonds and are bought by consumers who need current income. They are bought at face value, the minimum denomination being $500. Interest is paid by the government on a semi-annual basis. Your principal is returned to you on the date of maturity, which is 10 years after they are issued. Denominations range from $500 - $1000.

One advantage to choosing E-bonds as a savings option is the fact that income tax can be deferred until the bonds are cashed in. A consumer can even defer income until retirement (and convert into H bonds, whereupon he/she only pays taxes on those bonds which are being cashed in at that particular time).

Interest rate for both series E and H bonds is 6½ %. Interest rates change from time to time. It should be noted that old savings bonds (E) which have passed their maturity date still pay the current interest rate.

. How to register

Savings bonds Series E and H may be registered in the names of individuals. whether adults or minors, in single ownership, co-ownership, or beneficiary forms; only in single ownership form if in the names of fiduciaries and private and public organizations. They are not available to commercial banks in their own right.

*Information partly taken and/or adapted from "Series E Savings Bonds" and "Series H Savings Bonds", Department of the Treasury, United States Savings Bonds Division.

Bonds cannot be transferred, sold, or used as collateral.

NOTE: If bonds are registered in co-ownership form, during the co-owners' lifetime, either may cash the bonds. For reissue, both must join in the request. If registered in beneficiary form, during the owner's lifetime, only he or she may cash the bond. For reissue, both the owner and beneficiary must join in the request.

. Exchange for Series H Bonds

If you own series E bonds, you may exchange these at current redemption values for current-income H bonds. If you have deferred reporting for federal income tax purposes, the interest as it has accrued on the securities exchanged, you may continue to defer such reporting to the taxable year in which the H bonds received in exchange are redeemed, disposed of, or reach final maturity, whichever happens first. See Treasury Circular No. 1036 for rules governing this exchange offering.

. Safety

If your bonds are lost, stolen, damaged, or destroyed, notify the Bureau of the Public Debt, 200 Third St., Parkersburg, West Virginia 26101. Where possible, include serial numbers (with prefix and suffix letters), issue dates (month and year), names and addresses on bonds, and Social Security or employer identification numbers. You should keep records of these details separately from the bonds.

. Extended Maturity

E and H bonds now on sale may be retained at interest after original maturity for a 10-year extended maturity period. No special action is required to take advantage of this extension privilege--just hold the bonds. Older E bonds have been granted one or more 10-year extensions. This means that all E bonds now outstanding--regardless of age--are still earning interest. Changes in this regard are planned for 1980, with extended maturities being sharply reduced.

. Where to Buy Series E and H Savings Bonds

E bonds may be bought over the counter or by mail at banks; savings and loan associations; other local sales agencies; Federal Reserve Banks and branches; and the Bureau of the Public Debt, Securities Transactions Branch, Washington, D.C. 20226.

Regular bond purchases may be arranged through the payroll savings plan where you work or the bond-a-month plan where you bank.

H bonds are issued only by Federal Reserve Banks and branches and the Bureau of the Public Debt, Securities Transactions Branch, Washington, D.C. 20226. Banks and other financial institutions will accept and forward applications to the nearest Federal Reserve Bank or branch; delivery of bonds will be made by mail in accordance with purchaser's instructions.

. Additional Information on Savings Bonds Series E and H

For full details, see Treasury Circulars 653 (Series E) and 530 (governing regulations), available at Federal Reserve Banks; and Treasury Circulars 905 (Series H) and 530 (governing regulations), available at Federal Reserve Banks.

. Annuities

These can be called a personal savings plan with an insurance feature. Annuities are sold by insurance companies and are an additional source of funds for many people at retirement. They can be purchased long before retirement and paid for either in installments (deferred annuity) or in a lump sum at retirement (instant or cash annuity).

The annuity guarantees the annuitant (consumer who purchases an annuity) a fixed sum of money or regular payments at retirement for as long as he/she lives. The amount received is dependent upon the plan that is chosen.

There are two types of annuities which can be purchased:

- FIXED ANNUITIES are fixed dollar savings, whereby the individual is guaranteed either a lump-sum payment at a certain time in the future (e.g., $5000 in the year 1990) or fixed monthly payments starting at a certain time (e.g., $50 per month beginning at age 62) for the life of the annuitant.

- FLEXIBLE ANNUITIES are partly tied to securities. Therefore, the size of the future return can only be partly fixed, the rest depending on the gain or loss of the investments.

Before deciding to purchase an annuity, you should understand the interest earned is relatively low, as compared with other savings plans. In addition, the money does not become available until you retire, or until a specified date. Should you die prior to this date, the funds are, in most cases, not retrievable by your heirs.

There are various types of survivorship options available for purchase as well as combination insurance/annuity plans. It would be wise to discuss these with your insurance or other financial advisor.

TYPES OF SAVINGS ACCOUNTS GENERALLY ISSUED BY SAVINGS AND LOAN ASSOCIATIONS IN NEW JERSEY

	REGULAR PASSBOOK ACCOUNT	90-DAY NOTICE ACCOUNT	CERTIFICATES				
Annual Interest Rate	5.25%	5.75%	6.50%	6.75%	7.50%	7.75%	8.00%
Annual Yield	5.47%	6.00%	6.81%	7.08%	7.90%	8.17%	8.45%
Term	Unlimited	Unlimited	1 yr.	2 ½ Yr.	4 Yr.	6 Yrs.	8 Yrs.
Minimum Balance	None	None	$1,000	$1,000	$1,000	$5,000	$1,000
Additions Accepted	Unrestricted	Unrestricted	Not applicable additional deposits would be made through the issuance of another certificate				
Withdrawal Prior to Maturity	Interest paid day of deposit, day of withdrawal	No penalties after funds on deposit 90 days	Penalty of 90 days interest reverting to 5.25%	Penalty 90 days reverting to 5.25%	Penalty 90 days revert to 5.25%	Penalty 90 days revert to 5.25%	Penalty 90 days revert to 5.25%
Compounding	Daily	Daily	Daily	Daily	Daily	Daily	Daily
Interest Credited	Monthly/ Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly

Courtesy of New Jersey Savings League, Newark, N.J.

HOW SAVINGS ACCOUNTS VARY

If you are thinking about beginning a new savings account, how do you determine which institution to use? This checklist will provide you with some basic questions to consider. Don't feel embarrassed about obtaining answers from an official at the bank or savings and loan association with which you are dealing. You are the consumer and it's your money that is involved.

. How is the interest compounded? _____

. Is there a minimum balance required? _____

. Are minimum deposits necessary? _____

. When is the interest credited to your savings account? _____

. Are there any penalties involved when you withdraw funds without notice or earlier than stipulated? _____

. What are the requirements, conditions, etc., regarding a withdrawal from an account? _____

. Does interest begin to accrue from the day you deposit money? _____

. Does your money earn interest for the entire time it is deposited (e.g., "from time of deposit to time of withdrawal")? _____

. Does your money earn full interest only under special conditions, e.g., if you leave it to the end of the quarter ("Interest credited quarterly")? _____

. What is the interest paid? _____

. Does it offer any bonus days? _____

. What types of accounts does the institution offer?

_____

_____

_____

. Other _____

. Comments: _____

Name of Institution: _____

Date: _____

SELF ANALYSIS SHEET FOR DETERMINING PERSONAL AND FAMILY SAVINGS GOALS

(File with your important documents and update yearly)

Date: _____ Your age: _____ Spouse's Age: _____ Dependents _____

	Yours	Spouse's
Approximate net income per year	_____	_____
Projected income per year	_____	_____
Present savings per year	_____	_____
DO YOU (AND YOUR FAMILY):	Yes	No
Save steadily?	_____	_____
Save the same amount each period?	_____	_____
Feel your savings program to be adequate?	_____	_____
Save more than 6% of net income?	_____	_____
Save less than 6% of net income?	_____	_____
Have emergency savings of 3 months' net income?	_____	_____
Save for a specific purpose? (i.e., education, car)	_____	_____
Own more than one savings account?	_____	_____
Often withdraw from your savings accounts?	_____	_____
Have a savings plan and set goals, which include all members of the family?	_____	_____
Save for "fun" things (such as leisure activities), or reward yourselves (e.g., by buying a luxury item) with your savings?	_____	_____
Find it difficult to save regularly?	_____	_____
Keep a budget?	_____	_____
Divide large expenses into small monthly installments?	_____	_____

	Yes	No
Know about trust and custodian accounts?	_____	_____
Have any investments? (real estate, stocks, bonds)	_____	_____
Have surplus savings to invest?	_____	_____
Know about investment options?	_____	_____
Have a stock broker, insurance agent, accountant or financial advisor?	_____	_____

After analyzing your responses, ask yourself if you are satisfied with them. If not, ask yourself why not and think of possible ways in which you can improve your chances of reaching your personal and family savings goals.

SAVING VERSUS INVESTING

Money can be saved and invested through many different media. We may look at these ways as fixed dollar investments versus flexible dollar investments. In popular terms, these are usually identified as "saving" versus "investing."

In fixed dollar investments, the initial amount of capital remains constant and earns interest or dividends, as with a savings account, certificate of deposit or U.S. Government Savings Bond.

With flexible dollar investments, the initial amount of capital can increase or decline in value, and it may or may not pay interest or dividends. Typical examples are ownership of common stock, antiques, corporate or other bonds, mutual funds, real estate, art work, coins and stamps. These are all flexible dollar investments, the prices of which can go up or down. Money management experts advise that some funds (3- to 6-months' salary or more) always be held in fixed dollar investments, regardless of the family's economic circumstances. This gives the family greatest safety and access to funds when needed.

CRITERIA FOR SAVING AND INVESTING

Saving or investing makes good financial sense. Sometimes, however, it is difficult to decide where to put your money because of the various choices available, risks involved, and other circumstances. How can risk vs. increase of capital be balanced? The following are criteria to keep in mind as you evaluate which options are best for you:

CONCEPT OF RISK - TYPES OF RISKS

Risk of Loss of Capital

Risk of loss of capital is the possibility that the consumer may lose some or all of the investment that was made. Savings accounts, Series E and H Bonds, and certificates of deposit are all free from the risk of loss of capital (especially if savings accounts are secured by F.D.I.C. or F.S.L.I.C.).

Because fixed dollar investments generally offer safety of capital and guaranteed return, the rate of return may be lower than many flexible dollar investments. Flexible dollar investments are usually made in anticipation of a higher return. But a higher return generally means a greater risk of loss of capital. The actual degree of risk can vary, as will be detailed later on.

Risk of Loss of Purchasing Power

In addition to the risk of loss of capital, there is also the risk of loss of purchasing power. For example, $100 in a savings account earning 5% per year will be worth $105 a year later (no compounding assumed for this example). But if inflation exceeds 5% in the same year, the saver has actually suffered a loss. The risk of loss of purchasing power due to inflation has been significant in the past few years, and probably will continue to be significant into the forseeable future.

Risk of "Excessive Emotional Stress" is another important factor to keep in mind. Many people worry excessively about their savings and investments. Declines in value may be depressing, while increases in value may set off a spending spree. Some people probably should never make flexible dollar investments because of the risks of emotional stress. Emotional reasons may cause them to buy or sell at the wrong time, resulting in a loss of their capital. Other people cannot bear the risk of loss of their purchasing power in fixed dollar investments, and so they reduce these investments to a minimum.

ADDITIONAL CRITERIA

Risk Versus Return

As we have seen so far, every type of saving or investment plan carries with it a risk factor. Choosing the right approach for one's situation will make the difference between financial success and financial failure.

For most families a prudent financial plan calls for establishing security in fixed dollar savings plans before assuming the risks of flexible investments. The risks that any individual or family can afford to assume will depend on age, income bracket, goals in life, and temperament.

For example, the young person who has many years in which to accumulate a retirement fund may choose a flexible investment, with growth potential in the form of common stocks or mutual fund shares. Although safety of capital and return cannot be guaranteed, these factors are less important because of the long time period before retirement and the possibility of future gain.

The person who is just a few years away from retirement, however, may want to be very certain that the entire capital will be there when it is needed. Someone who is just retiring or has already retired may want to maximize investments in types that will produce current income and carry no risk of loss of capital.

The Rate of Return and How Stable It Is

This means the percentage rate of earnings on savings, e.g., a 10% return on $200 means that you earn $20 during a specified period, most likely one year. The stability of earnings (whether they are guaranteed) is also an important factor.

Convenience

How close are the financial institutions you have selected to your home or place of business? How accessible are they in terms of times of day or week in which they are open to customers? What type of services do they offer? These are factors to be considered by the prudent consumer.

Liquidity

This means the ease with which savings can be withdrawn and/or converted to cash. For example, funds in a regular type of savings accounts are more liquid than those deposited in a 90-day account or a two-year certificate of deposit. Funds in stocks or mutual funds are more liquid than those invested in real estate or jewelry.

Consumers who are willing to take time to investigate the many savings and investing options available in the vast financial market will find that they have the power and control to make their money grow for them. This will happen whether their needs are immediate or long-term, whether they are rich or in modest financial circumstances.

Improving your financial situation is not a matter of luck; rather it reflects planning, defined goals, knowledge about options, and a desire for personal success.

INVESTING - BONDS

Consumers are often bewildered by technical financial terminology and the complex stock market. They believe that average consumers cannot make good judgements regarding where or how to invest, and that usually they lose money when attempting it.

It is true that investing involves risk. However, consumers who take the time to understand what is involved and then realistically examine their own financial situation, need not despair. With proper education and judgment, investing can be a successful way to help develop financial security.*

Fixed dollar savings, which have been discussed in other fact sheets, enable consumers to save on a regular basis. Small or large amounts of money can be put aside via various savings accounts, certificates of deposit, and U.S. Government Savings Bonds. There are also other ways in which consumers can diversify. These are called flexible dollar investments. These methods make it possible for many people to stay ahead of inflation, to build a nest egg over the years, and to establish financial security.

There are many investment opportunities available to consumers, such as stocks, bonds, mutual funds, or real estate. When using these approaches, the invested principal is subject to fluctuations in price. Depending upon the situation, these fluctuations can result in possible gains or losses.

It is recommended that consumers make sure they have funds available, which are not part of the daily budget or emergency finance cushion, before they invest in flexible dollar securities. The next step is to consult with a reputable broker.

In the following section, we shall examine one investment option--bonds--and evaluate its potential advantages and disadvantages for consumers.

CHARACTERISTICS OF BONDS

Bonds are fixed income securities which offer a great degree of safety, especially when they have a high rating. Bonds are considered a very secure method of investing, as far as safety of principal (the money invested) and interest is concerned.

* The following fact sheets on investments have been grouped together in one package for your convenience. This was done to present an overall view of the concept of flexible dollar investing. If your interest is in one particular area, e.g., stocks, bonds, or mutual funds, select the fact sheet featuring your topic of interest, and then continue with "What the Small Investor Needs to Know."

The issuer of bonds (borrower) promises to the bond holder that the money borrowed will be repaid to the holder in full at maturity. In addition, the bond holder also receives a fixed amount of income, called interest. This interest is predetermined and remains fixed. This is the reason why bonds are called fixed income securities. They are also called debt certificates because they represent an obligation which has to be repaid.

Public or private entities borrow money from consumers who are interested in investing their funds for a possible profit. These borrowing entities are the federal or state government, municipalities, or corporations. They issue bonds to meet certain financial needs. In return, bonds are issued which promise to pay a specific amount of interest.

The interest rate of bonds is predetermined and set at a fixed rate on the date of issuance. This means that when you buy bonds, you know what the interest is going to be. The interest rate never fluctuates. Another term used in connection with interest is coupon or coupon rate. Coupon refers to the interest (for a 6-month period of time). The coupon rate is another way of saying yearly interest rate.

The yield to maturity expresses the true value of the average yearly return to the buyer. This is another way of defining the true return on investment.

Bonds also promise to pay back the par value on a specified date. This date is called the maturity date. Par value is the value at which the bond is issued. It is also called the face value and is the value stated on the bond certificate. The par value is usually $1,000 (in some cases $5,000, $10,000 or more.) Owners of bonds are called creditors.

Once they are issued, prices of bonds fluctuate, depending upon the price other investors are willing to pay in the market place at that time. This again depends upon the general money market situation, and interest rates offered by savings and lending insititutions. Bonds can be purchased or sold at:

- par value
- at a discount (an amount below par level)
- at a premium (an amount higher than the par level)

Bonds sell at a discount when the current price (cost to you today) is lower than the par value (when issued). For example, the bond may sell for $750 while its par value is $1,000.

Bonds sell at a premium, if the current price is higher than the par value of the bond when issued. For example, you have to pay $1,150 for a bond with a par value of $1,000.

Only at maturity date are you sure to get the total face value of the bond paid out to you. Therefore, it is generally recommended that consumers buy bonds for income and safety, and only invest in them if they feel quite sure that they will not need to sell the bonds before maturity.

The fact that bonds are fixed income securities means that the steady income which you are being promised is guaranteed for a certain number of years at the same interest rate. For instance, in the case of a 6% bond, whoever issues the bonds will pay you 6% on the par value of that bond until it matures. To cite an example, this would amount to $60 per year for every $1,000 bond you own. You may purchase bonds individually or in larger numbers, depending upon choice and money available.

In addition to offering steady income, bonds offer a written promise that the company will repay the principal at maturity. If you are a bond holder, you will be paid back the face value of the bond ($1,000 or multiples) at maturity (in 5, 10, 15 years, or more). Meanwhile, you are earning interest.

TYPES OF BONDS

Several types of bonds can be identified, depending upon who issues the bonds. The four basic types we shall examine are U.S. government securities, municipal bonds, corporate bonds, and utility bonds.

U.S. Government Securities

Bonds are considered a relatively safe way to invest. In the case of government bills, notes, and bonds, the safety is almost "absolute." U.S. Government obligations are fully guaranteed by the government. They are of the highest quality available. They are issued with varying maturity periods ranging from several months to many years. They offer the greatest safety possible, as far as safety of your principal is concerned. U.S. Government Securities (also called government obligations) may be classified in several ways. These are: U.S. Treasury Bonds--medium-term bonds which mature between 5 and 10 years or more from date of issuance; U.S. Treasury Notes--which mature between one and seven years; and U.S. Treasury Bills--which mature within 3, 6, 9, or 12 months.

Several federal agencies also issue bonds to meet their needs for money. Although these agency securities are considered very secure, they do not carry the same degree of safety as U.S. Government Bonds, Notes, and Bills.

Municipal Bonds

Municipal bonds are debt obligations of state and local governments such as counties, school districts, and highway authorities. The local governments borrow money to finance construction or repair of highways, hospitals, or schools or to improve important public facilities, etc.

Municipal bonds are ideal investments for people in higher income tax brackets. The income derived from them is exempt from federal as well as state and local income taxes in the state in which they were issued. The higher your tax bracket, the more appealing this type of investment. But investigate the

quality of these bonds and buy well-known issues of larger entities. Also, your broker or other financial advisor has special tables (charts) which will help to evaluate your needs and determine if this kind of investment is good for your circumstances.

Corporate Bonds

Corporate Bonds are bonds issued by corporations. They usually carry a higher interest rate than other bonds, and their rating is particularly important.

Utility Bonds

Utility Bonds are offered by such utilities as gas, electric, and telephone companies. They are generally considered safe regarding principal and consistent regarding interest payment records. However, this higher degree of safety usually results in lower interest rates to the investor.

RATING

Consumers looking for security and safe investments should buy bonds with a high rating. In general, the higher the rating of the bond, the greater the guarantee of uninterrupted payments and proper repayment of principal at maturity.

The following rating systems are used by the two largest rating companies--Moody's and Standard and Poor's investment advisory services.

Rating Systems

Standard and Poor's	Moody's	Rating means
AAA	Aaa	Bond of highest quality and lowest risk to investor
AA	Aa	High-grade bonds
A	A	Medium-quality bonds, relatively little risk
BBB	Baa	The quality deteriorates, the risk increases
BB	Ba	
B	B	
CCC	Caa	
CC	Ca	
C	C	Speculative bonds which carry great risks for investors

Note: In the case of municipal, corporate, and utility bonds, investors need to determine the safety by examining the rating of that municipality or organization.

For additional information about rating of bonds, consult a financial expert, or check Moody's Bond Survey or other sources of information in your library.

ADVANTAGES OF BONDS

. Great safety of principal when held to maturity

. Fixed income (interest rate never fluctuates)

. Steady income

. Interest is predetermined

. In case of company liquidation (bankruptcy), bond holders have prior claim to assets (that which is owned by the company), ahead of preferred and common stock holders

DISADVANTAGES OF BONDS

. Not considered a good hedge against inflation

. Prices fluctuate

. Some contracts have a call feature. This means that the company can recall bonds before they mature. They may take this action if current interest rates drop and they do not wish to pay the higher rate. In such a case, the consumer receives the par value but may find it difficult to invest the money at the previous higher interest rate

. In case of company bankruptcy with few or no funds remaining, bond holders will lose much or all of the investment

. Usually require larger investments than stocks or mutual funds

INVESTING - STOCKS

It is common for families to worry about keeping up with inflation. They feel they should save for their retirement or for other purposes, but there never seems to be enough money accumulated throughout the years. Many consumers have successfully increased their financial worth by investing wisely in stocks.

Stocks represent ownership. Buyers of stocks receive stock certificates as evidence of their ownership. Buying stocks means more than just an investment. It means becoming a part of a corporation in which you have faith. You hope that the company will grow and expand, and you will get a fair return on your investment. Stocks can appreciate in value and yield a higher price at some time in the future. They can also pay dividends to shareholders.

CHARACTERISTICS OF STOCKS

Stocks have no maturity. This means that there is no expiration date. The company does not guarantee repayment of your investment at any time or the payment of dividends. However, you become a part owner. If the company thrives and makes a profit, so do you because other investors will want to buy stocks and you will be able to sell yours at a profit.

Your earnings are called dividends. Many of the companies which are traded on the New York Stock Exchange do indeed pay dividends regularly and have done so uninterruptedly for many years.

If you are considering a specific stock and are interested in income, look into the company's record of dividend payments over the last few years before you buy. See if this company provides stability of earnings and regularity in the payments of dividends.

If you are interested in growth of capital only, then consider purchasing stocks which are primarily growth-oriented. Growth stocks do not necessarily pay high or regular dividends. The company reinvests some or all of the earnings for research and further development to bring about more growth. This in turn can make your investment more valuable. Growth stocks also help you to participate in the growth of the economy or a particular industry. However, you have no guarantee as to income and profits. You need also to be aware of fluctuations of stocks resulting from expectations in future earnings. You are your own money manager. You have to do the research and you have to know when to buy or sell. Lists of stocks which are either income- or growth-oriented can be obtained from a reputable brokerage house.

Stocks can offer knowledgeable investors great opportunities for financial gain. The opposite is also true. Some people are temperamentally unsuited to own stocks

because they are upset by fluctuation. Others, however, love the excitement and possibility of gain. If the consumer cannot recoup any possible losses through other income sources, different safer types of investment such as fixed income savings bonds, certificates of deposit, and savings accounts should be chosen instead.

Stocks can be purchased on the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and over the counter (OTC). They are bought and sold in a continuous market (where a large number of buyers and sellers continually buy and sell). This happens despite the fact that buyers and sellers are often thousands of miles apart. The Stock Exchange serves as the central market place. Stocks are bought through a broker who, upon receiving an order, places it on the exchange floor. At the same time, another order comes in from a seller and this order is exchanged and negotiated on the exchange floor. If an agreement can be reached between buyer and seller, the orders will be executed. Buyer and seller are then notified that the purchase of sale has taken place. Prices of stocks fluctuate continually, based upon supply and demand.

TYPES OF STOCKS

The two major types of stocks are common stocks and preferred stocks. In general, it can be said that preferred stocks carry more income than common stocks, and that the income is more regular. Preferred stocks usually are considered more steady in price than common stocks, yet they can also be subject to the same degree of fluctuation as common stocks. Many investors buy preferred stocks because they feel that the income carries greater stability and is more steady. Preferred stocks pay a somewhat higher return than bonds. In general, both common and preferred stocks are considered a more risky investment than bonds.

The following chart compares the two basic categories of stocks, and explains their advantages and disadvantages.

A QUICK REVIEW OF STOCKS

Common Stocks	Preferred Stocks
. No maturity	. No maturity
. Ownership	. Ownership
. Growth potential	. Growth potential, somewhat less than common stocks
. Income: Dividends as earned; no guarantee regarding dividends	. Income: Dividends will be paid before holders of common stock receive any payment. Dividends are generally promised and usually paid. A specific rate must first be approved by the company's board of directors for a given year

. Prices fluctuate	. Prices fluctuate (in general somewhat less than common stocks)
. In case of liquidation, holders of common stock must wait until bond and preferred stockholders are paid	. In case of liquidation, holders have prior claim to assets up to par value, before common stock holders receive anything
. Voting rights	. No voting rights
. Can be good hedge against inflation	. Can be a good hedge against inflation, but somewhat less than common stock

Holders of specific types of preferred stocks may benefit from ownership by holding cumulative preferred stocks or participating preferred stocks. On occasion, companies are unable to pay dividends on the preferred stocks. They promise to compensate the investor in future years if monies are available. (These types of investments are called cumulative preferred stocks.)

Preferred stockholders may also receive special treatment regarding dividends. (These types of stocks are called participating preferred stocks.)

STOCK PLANS FOR SMALL INVESTORS

It is possible for small investors to invest modest amounts of money on a regular basis for the purchase of stocks. This is done by purchasing fractions of shares of a particular stock. Some brokerage houses offer plans which let you invest small amounts of your choice at periodic intervals ranging from one to approximately three months.

ADDITIONAL INFORMATION

For more information on investing, contact your broker or write to the New York Stock Exchange, 11 Wall Street, New York, New York 10005 and request publications: "Ten Questions to Ask Before You Buy Stocks" and "How to Get Help When You Invest."

INVESTING - MUTUAL FUNDS

Mutual funds are investment companies which offer professional management, diversification, and research capabilities to consumers--services which the small investor ordinarily cannot afford.

When a consumer buys mutual fund shares, monies are pooled from a large number of investors to form a mutual fund. Managers of the funds use these monies to invest in many different securities. Each individual investor receives a certificate which declares all the terms of ownership, (e.g., 100 shares of XYZ fund). But, in reality, the investor has part ownership in a number of different types of securities.

CHARACTERISTICS OF MUTUAL FUNDS

Mutual funds offer diversification, which means that they invest in a large number of different stocks, bonds, and government securities. This spreads the risk of loss because a larger number of securities are involved. Many times consumers cannot have such diversification when investing by themselves, as this would require too much capital. Mutual fund companies have a professional staff which analyzes reports and makes recommendations to management regarding what types of investments to buy.

Different mutual funds have different objectives. Depending upon their stated goals, they can be income-oriented, which means their goal is to produce a relatively high return for investors; growth-oriented, which means appreciation of capital is their goal; or speculative, which means they intend to take large risks for a possibly large profit. There are further graduations and specializations within these groupings.

Speculative type investment companies, such as venture capital mutual funds, invest in risky situations--speculative real estate and other ventures.

The objectives of the mutual fund are spelled out in a report which is called a prospectus. By analyzing a prospectus, a consumer can determine whether the fund meets his/her specific needs. Some funds may operate under one family or fund name and be managed by different people. Each of these various funds has a different objective. It is up to the prospective investor to be knowledgeable before investing.

The following list illustrates various types of funds in greater detail. They range from conservative to growth-oriented to speculative.

MUTUAL FUND TYPES

Money market funds -	Invest in U.S. Treasury Bills and other types of money market instruments
Bond funds -	Invest in bonds and trade these securities to take advantage of market changes
Unit investment trusts -	Fixed portfolio consisting of debt obligations (short, intermediate or long-term)
Income funds -	Primary investment objective is income, not growth; they invest primarily in preferred stocks and bonds for high interest and yield
Balanced funds -	Bonds, preferred and common stocks, included in portfolio
Income and growth funds -	Diversification in common stocks
Growth funds -	Stocks with growth potential
Aggressive funds -	Aggressively growth-oriented; more risky than than growth funds
Speculative funds -	Specialized funds such as oil, real estate, cattle, special situations, undervalued stocks, venture capital situations

In general, mutual funds should be bought for the longer term only; they are not meant for trading. If used properly, mutual funds can be considered a good financial option for the smaller investor.

ADVANTAGES FOR THE SMALL INVESTOR

- No technical knowledge or experience is necessary. The problems of "which stock to buy," and "when to buy or sell" are solved for you by a professional research staff.
- Modest sums of money will buy a diversified portfolio, thus spreading risk.

DISADVANTAGES FOR THE SMALL INVESTOR

- Somebody else makes investment decisions for you.
- There is a management fee and/or a sales commission involved.
- Mutual funds can be just as risky as stocks.
- Large funds can lose flexibility.

If you are considering investing in mutual funds, first determine if this kind of investment is consistent with your financial goals and objectives. Remember: Mutual funds and stocks are investments which always involve at least some risk of loss of principal for investors.

PURCHASING MUTUAL FUND SHARES

Mutual funds can be purchased directly at a fixed amount, or on the basis of a long-term sales plan. There are voluntary accumulation plans and contractual plans. In a voluntary accumulation plan you may buy as often as you wish and in amounts of your choice. In contractual plans you sign a contract that you will invest a specific amount of money over a period of years. Contractual plans are not necessarily considered a wise choice because the investor is locked into a plan for many years. In the event that the plan must be discontinued, chances of profit can be slim. A substantial portion of the investment pays for the commission during the early months or years of the plan.

WHAT THE SMALL INVESTOR NEEDS TO KNOW

THE INVESTMENT CLUB WAY OF INVESTING

An investment club is a nonprofit organization formed voluntarily by a group of people, usually up to 15 in number. The club members put aside a small amount of money every month, $15 or $20 per person. They purchase stocks which are selected at monthly meetings. Many times one member of the club is selected to serve as the reporter on general economic situations; another is chosen to report on special groups of stocks.

Investing money through an investment club is primarily an educational experience. There is very little risk involved to the members. There is little profit to be gained as well. Many investors consider investment clubs an excellent and enjoyable way of learning to invest money.

For further information, write to the National Association for Investment Clubs, NAIC, P.O. Box 220, Royal Oak, Michigan 48068.

DOLLAR COST AVERAGING AND OTHER ACCUMULATION PLANS

A system of buying securities whereby a given amount is invested in a given security periodically. The investor invests a given amount each month with a brokerage house (ordinarily a single stock is purchased). When the price of the security is high, fewer shares are purchased; when the price of the security is low, more shares are purchased with a given number of dollars. For instance, if one were to put $60 per month in a particular stock, he or she can buy six shares if the price is $10 per share, but only five shares if the price goes up to $12 per share.

Some brokerage houses offer such plans to investors. Write also to the National Association for Investment Clubs (NAIC) regarding stock purchase plans for small investors.

HOW TO CHOOSE A BROKER

Brokers and other financial advisors must be chosen with great care. It is important to select a reputable brokerage house--a large or established institution, preferably with its own research department. The broker you choose should be experienced in investing. You should feel comfortable talking to him/her and find him/her sympathetic to your goals.

If you start an account with a brokerage house, do not accept the "broker of the day." Instead, request a meeting with the manager, and explain your objectives, personal make-up, and financial situation. A broker should be assigned to you who will suit your personality and financial needs.

You need to know that brokers are under specific and detailed obligations prescribed by law, such as the rules of the Securities and Exchange Commission (SEC), state securities regulations and securities industry self-regulatory requirements, governing their dealings with clients at all times.

Do NOT choose a broker who:

- offers hot tips
- promises to double your money in one or two years
- comes from a small or unknown investment house, if you did not research the company.

The wise investor selects a broker who relies upon careful research, provided either by the brokerage firm or a reputable research institution. The broker should offer understanding, professionalism, and proper knowledge.

It is often helpful to ask for a referral from someone you know very well, who has been served satisfactorily.

PROTECTION AND INFORMATION FOR INVESTORS

- An Office of Consumer Affairs has been established, under the Securities Exchange Commission, to deal with problems of small investors. If you have complaints about matters pertaining to securities, contact the Office of Consumer Affairs, Securities Exchange Commission, 500 North Capital Street, Washington, D.C. 20549.

- The Shareholders Investors Protection Corporation (SIPC) is a government agency which insures investment accounts held with brokers for up to $100,000 in value and up to $20,000 on any cash balance. Some brokerage houses have purchased additional private insurance beyond this coverage. Check with your brokerage house if this matter is of interest to you.

- National Association of Securities Dealers, Inc. (NASD), 1735 K. Street N.W., Washington, D.C., is a self-regulatory organization for broker-dealers throughout the country (13 field offices). It handles customer complaints on an ongoing basis and is empowered to take disciplinary action against its members.

- Securities Industry Association, located at 20 Broad Street, New York, New York 10005, is the trade association for the securities industry. This corporation also answers questions or helps mediate problems.

- Investment Company Institute, located at 1775 K Street, N.W., Washington, D.C. 20006, is a trade association for the mutual funds industry. It acts as a clearing house for information regarding mutual funds, and also answers questions and mediates problems.

WHERE TO GET ADVICE

The search for reliable advice and information is a problem which confronts most investors. The following are sources of information for you to consider:

- A reputable brokerage house, bank, or other financial institution, insurance company or agent. The professional (broker, banker, insurance agent) will provide you with information. It is your job to take that information, examine it, and make a decision based upon your personal circumstances and goals. A financial specialist may be recommended to you by someone you trust. It is important that you establish a good working relationship with this advisor. Once trust has been established, do not switch constantly from one advisor to another in the hope of higher profits.

- The library is a source of much good information. You should research the company which interests you. Examine its financial standing and future prospects and read books on the subject. Newsletters, periodicals, and magazines are also available at libraries for your use.

- Refer to the attached list, "Sources of Investment Information," for further reading.

CONCLUSION

Fact sheets 26-29 have provided an overview of the various investment options available to consumers. As a potential investor, you can continue your financial education through research and by interviewing your broker, accountant, financial advisor, and other knowledgeable people. Putting monies into stocks, bonds, mutual funds, and real estate offers potential financial gain to those who invest prudently.

Good luck!

SOURCES OF INVESTMENT INFORMATION*

1. NEWSPAPERS AND PERIODICALS

Barron's — National Business and Financial Weekly, Dow Jones and Co., Inc., 22 Cortlandt Street, New York, N.Y. 10007. Published weekly.

Commercial and Financial Chronicle — William D. Dava, 25 Park Place, New York, N.Y. 10007. Published twice weekly.

Forbes — Forbes, Inc., 60 Fifth Ave., New York, N.Y. 10001 Published twice monthly.

The New York Times — Financial Section, The New York Times Company, 229 West 43rd Street, New York, N.Y. 10036. Published daily.

The Wall Street Journal — Dow, Jones and Co., Inc., 22 Cortlandt St., New York, N.Y. 10007. Published Monday through Friday except holidays.

The Wall Street Transcript — Wall Street Transcript Corporation, 54 Wall Street, New York, N.Y. 10005. Published weekly.

2. SERVICES

. Investment Company, 1978, Mutual Funds and Other Types

Weisenberger Services, 1 New York Plaza, New York, N.Y. 10004. Published annually.

. Moody's Investors Service, Inc., 99 Church Street, New York, N.Y. 10007. Publications of particular interest to the individual investor include:

Moody's Handbook of Common Stocks
Moody's Stock Survey
Moody's Bond Survey

. Standard and Poor's Corporation, 345 Hudson Street, New York, N.Y. 10014. Publications of particular interest to the individual investor include:

The Outlook, published weekly
Stock Guide, published monthly
Standard N.Y.S.E. Stock Reports
Over the Counter and Regional Exchange Reports

. The Value Line Investment Survey, Arnold Bernhard and Co., Inc., The Value Line Building, 5 East 44th Street, New York, N.Y. 10017. Published weekly.

* Many of these can be found in a local library or brokerage office.

QUIZ FOR UNIT V -- MAKING YOUR MONEY GROW

Dear Friend,

This quiz covers Fact Sheets 22 through 25 of Unit V -- Making Your Money Grow.

After reading the fact sheets, you are ready to complete the quiz. Feel free to refer to your fact sheets whenever necessary. Please follow the quiz instructions and return the quiz in the return envelope.*

Name _____

Address _____

_____ Zip _____

Instructions:

This quiz contains two types of questions, true-false and multiple choice.

True-false: Circle "T" if the statement is true and "F" if the statement is false.

Multiple choice: Select the best possible answer and write the corresponding letter in the blank provided.

1) T F A moderate savings plan geared towards planning for financial security in retirement years may require a personal and family adjustment in present spending and life-style.

2) ____ Reasons why people save include:

   a. emergency (medical, loss of job, etc.)
   b. vacation, leisure
   c. wedding of a child
   d. downpayment for a home
   e. a and b
   f. all of the above

3) T F In general, the safer the principal the higher the rate of return.

4) T F Credit unions are owned by their depositors and regular saving is encouraged through the automatic payroll deduction plan.

5) T F Once you buy a Certificate of Deposit you can usually withdraw money at anytime, but doing so before maturity will result in a lower earnings rate and the loss of some interest.

6) ____ This question is in reference to the Monthly Grow Power, Chart I, on fact sheet #24, page 4. If one saves $20 per month for the college education of a child who is presently 4 years of age, how much savings could one expect to accumulate (not including taxes) when the child is 17 years old?

a. $ 247.01
b. $4974.16
c. $7207.29
d. $1375.56

7) T F Both Series E and Series H bonds are bought at a discount and pay a higher face value at maturity than at time of purchase.

8) ____ Which of the following is not an example of a fixed dollar investment?

a. government savings bond
b. mutual funds
c. certificate of deposit
d. savings account

9) T F Risk of loss of capital refers to the possibility that the consumer might lose any of the investment he/she made.

10) T F Liquidity refers to the ease with which savings can be withdrawn and/or converted to cash.

We would appreciate the following information to help us improve our service:

Have you used or shared any of this information from the fact sheets or do you plan to do so?*

Yes _____ No _____

If yes, in what way?

*Applicable only if this unit has been administered through a County Cooperative Extension office. If not, please complete the quiz and retain for your own benefit and reference.

Appendix

QUIZ KEY FOR UNIT I -- FINANCIAL PLANNING

1) f Which of the following may influence your financial decisions?

a. parents' attitudes
b. your mood
c. your spouse's goals
d. your children's needs
e. your decision to change jobs
f. all of the above

(fact sheet #1, pages 1, 2)

2) (T) F Before setting up a budget, you should understand family values, think about your goals, examine your personal situation, and communicate with other family members, if applicable.

(fact sheet #1 pages 1, 2)

3) (T) F One purpose of setting up a budget plan is to meet individual and/or family goals and needs.

(fact sheet #2, page 6)

4) T (F) Net income is all the money that you earn before taxes and other deductions are subtracted.

(fact sheet #2, page 1)

5) (T) F Paying bills by check can be a helpful tool for record-keeping purposes.

(fact sheet #2, page _)

6) (T) F One way to meet large irregular payments, such as car insurance, is to break down the large sums into small sums which can be set aside until the payment is due.

(fact sheet #2, page 1)

7) T (F) Rent or mortgage payment is considered a flexible expense.

(fact sheet #2, page 1)

8) (T) F Liquid assets are easily converted into cash within a short period of time.

(fact sheet #3, page 1)

9) a Financial net worth is:

a. total assets minus total liabilities
b. liquid assets minus other assets
c. original price minus market value
d. liabilities minus liquid assets

(fact sheet #3, page 2)

10) d It is possible to control your money rather than having your money control you by:

a. taking financial inventory
b. understanding individual and/or family values, goals, needs, and priorities
c. developing a workable budget
d. all of the above

(fact sheet #2, page 6)

QUIZ KEY FOR UNIT II -- COPING WITH CREDIT

1) T (F) The amount of credit you can safely take on depends only on the size of your income.

(fact sheet #4, page 1)

2) (T) F It is easy to over-buy when using credit cards.

(fact sheet #4, page 2)

3) (T) F Families who habitually buy on credit may add as much as 18% to the cost of goods and services.

(fact sheet #4, page 3)

4) T (F) When using installment credit, the customer owns the goods as soon as they are in his or her possession.

(fact sheet #4, page 3)

5) d The main reason for establishing a good credit rating is:

a. all your friends have one
b. to be able to open a checking account
c. employers like to see it before hiring you
d. it will be easier to get a loan when you need it most

(fact sheet #5, page 1)

6) T (F) A credit bureau is the same thing as a credit grantor.

(fact sheet #5, page 4)

7) b A consolidation loan is:

a. many small debts which you have to pay
b. one large loan to pay off many small debts
c. a low-interest loan
d. a loan with a few large payments

(fact sheet #6, page 1)

8) T (F) When you use a credit counselling service, you can continue to use any of your credit cards.

(fact sheet #6, page 2)

9) (T) F When you are using a credit counseling service, many creditors will make adjustments if spoken to and convinced of your sincerity and willingness to pay.

(fact sheet #6, pages 1, 2)

10) T (F) The cheapest way to pay for a car is to finance it through the car dealer.

(fact sheet #7, pages 1, 3)

11) (T) F An acceleration clause in a loan contract means that the entire balance may come due at once.

(fact sheet #7, page 2)

12) T (F) All car loan contracts are the same, therefore you don't have to understand what all the terms mean.

(fact sheet #7, page 2)

QUIZ KEY FOR UNIT III -- PLANNING FOR PROTECTION: LIFE INSURANCE

1) (T) F Most insurance policyholders are either over- or underinsured.

(fact sheet #9, page 1)

2) T (F) The proper insurance plan takes into account only the policyholder's income.

(fact sheet #9, page 1)

3) T (F) Your original life insurance policy should take care of your family's needs throughout your entire life.

(fact sheet #9, page 2)

4) (T) F It is a good idea, but not easy, to comparison shop for life insurance.

(fact sheet #9, page 3)

5) T (F) Term insurance allows for a buildup of cash value and some savings.

(fact sheet #10A, page 1)

6) (T) F An endowment policy is also considered a savings plan with term insurance.

(fact sheet #10B, page 3)

7) (T) F Combination plans are good for meeting the needs of the family.

(fact sheet #10C, page 1)

8) __c__ Which type of insurance policy provides maximum amount of protection for low cost?

a. endowment
b. whole life
c. term

(fact sheet #10A, page 1)

9) __b__ A policyholder can borrow against which type of insurance policy?

a. term
b. whole life
c. both

(fact sheet #10B, page 1)

10) c Riders are:

a. new policies
b. cash build-ups
c. additions to already existing policies

(fact sheet #12, page 1)

QUIZ KEY FOR UNIT IV -- FINANCIAL ASPECTS OF HOUSING

1) (T) F Property taxes and the interest portion of mortgage payments can be deducted from taxable income.

(fact sheet #13, page 2)

2) __a__ Generally, monthly payments of principal, interest, and taxes should not exceed more than:

a. one week's pay
b. two weeks' pay
c. three weeks' pay

(fact sheet #14, page 1)

3) __c__ You may get a lower price if you house hunt in the:

a. summer
b. fall
c. winter
d. spring

(fact sheet #15, page 1)

4) (T) F A purchase agreement includes all terms and conditions of the sale, but does not give the buyer the title to the property.

(fact sheet #15, page 1)

5) T (F) Earnest money is always returned if you change your mind about buying the house.

(fact sheet #15, page 2)

6) __b__ "Clouds" on property are:

a. disputes over property boundaries
b. restrictions on property, either recorded or unrecorded
c. defects in the house itself
d. closing costs

(fact sheet #15, page 3)

7) Match the following:

2	a.	Depreciates faster than single-family home (fact sheet 17, page 2)	1. Cooperative Apartment 2. Mobile Home 3. Multiple-Family House 4. Condominium 5. Single-Family House
1	b.	Shareholders share ownership of entire complex (fact sheet #17, page 1)	
3	c.	Sections of house are rented out to help with mortgage payments (fact sheet #17, page 1)	
4	d.	Share ownership of land, but each unit is owned separately (fact sheet #17, page 2)	

QUIZ KEY FOR UNIT V -- MAKING YOUR MONEY GROW

1) (T) F A moderate savings plan geared towards planning for financial security in retirement years may require a personal and family adjustment in present spending and life-style.

(fact sheet #22, page 1)

2) f Reasons why people save include:

a. emergency (medical, loss of job, etc.)
b. vacation, leisure
c. wedding of a child
d. downpayment for a home
e. a and b
f. all of the above

(fact sheet #22, page 1)

3) T (F) In general, the safer the principal, the higher the rate of return.

(fact sheet #23, page 2)

4) (T) F Credit Unions are owned by their depositors and regular saving is encouraged through the automatic payroll deduction plan.

(fact sheet #24, page 1)

5) (T) F Once you buy a Certificate of Deposit you can usually withdraw money at anytime, but doing so before maturity will result in a lower earnings rate and the loss of some interest.

(fact sheet #24, page 6)

6) b This question is in reference to the Monthly Grow Power, Chart I, on fact sheet #24, page 4. If one saves $20 per month for the college education of a child who is presently 4 years of age, how much savings could one expect to accumulate (not including taxes) when the child is 17 years old?

a. $ 247.01
b. $4974.16
c. $7207.29
d. $1375.56

(fact sheet #24, page 4)

7) T (F) Both Series E and Series H bonds are bought at a discount and pay a higher face value at maturity than at time of purchase.

(fact sheet #24, page 7)

8) b Which of the following is not an example of a fixed dollar investment?

a. government savings bond
b. mutual funds
c. certificate of deposit
d. savings account

(fact sheet #24, page 7)

9) (T) F Risk of loss of capital refers to the possibility that the consumer might lose any of the investment he/she made.

(fact sheet #25, page 1)

10) (T) F Liquidity refers to the ease with which savings can be withdrawn and/or converted to cash.

(fact sheet #25, page 3)

Name _____

Date _____

Dear Friend,

Recently you participated in a Home-Study Course, "Your Money Matters."

To help with the evaluation of this course, please complete this questionnaire and return it in the envelope provided. Your cooperation in returning the completed questionnaire immediately will be appreciated.

Sincerely,

EVALUATION QUESTIONNAIRE

1. Check the units you studied:

   1. ____ Financial Planning
   2. ____ Coping With Credit
   3. ____ Planning for Protection: Life Insurance
   4. ____ Financial Aspects of Buying a House
   5. ____ Making Your Money Grow

2. What did you learn? (Use back of sheet if you need more room.)

3. Has the course led you to take any action regarding your financial planning or money management? (Circle one) YES NO

4. If yes, what action did you take?

5. Do you plan to take any action in the future as a result of this course? (Circle one) YES NO

6. If yes, what action do you plan to take in the future?

7. Have you shared or used any of the information gained from this course with others? (Circle one) YES NO

8. If yes, indicate in what way you have shared or used the information.

   1. ____ with family
   2. ____ with friends
   3. ____ used in work
   4. ____ other (please explain)

9. State what was most useful to you in the course.

10. State what was least useful to you in the course.

11. Were the materials easy to understand? (Check one)

   a. ____ Very easy
   b. ____ Easy
   c. ____ Just right
   d. ____ Slightly difficult
   e. ____ Difficult

12. Other comments:

To help us interpret your feedback in a meaningful way, please provide us with the following information:

AGE GROUP

a. ____ under 24
b. ____ 25-44
c. ____ 45-64
d. ____ over 65

EMPLOYMENT

a. ____ full-time
b. ____ part-time (under 20 hours per week)
c. ____ retired
d. ____ unemployed
e. ____ other

Total number of family members in your household _____

INCOME

a. ____ under $3,999
b. ____ 4,000 - 9,999
c. ____ 10,000 - 14,999
d. ____ 15,000 - 19,999
e. ____ over $20,000

EDUCATION

a. ____ nonhigh school graduate
b. ____ high school graduate
c. ____ high school and training or some college
d. ____ college graduate
e. ____ other

SEX

a. ____ male
b. ____ female

RESIDENCE

City, town, etc._____

County _____

Urban _____ Rural _____

All information is confidential and will not be released except in some tabulated form for educational evaluation purposes.

Thank you!

About the Author

Denise Matejic is Associate Specialist in Family Resource Management, Department of Home Economics, Cook College, Rutgers University. She has a Master's degree from the School of Business Administration in Vienna, Austria, and did post-graduate work at the Institute of Finance, New York; the American Institute of Banking; and the New Jersey Professional School of Business.

As a family resource management specialist, she provides assistance to Extension faculty and other professionals in developing, implementing, and evaluating educational programs in family financial management and consumer economics. She has written extensively for the Cooperative Extension Service, Cook College, Rutgers University, and co-authored *Personal Money Management, Guidelines for Teaching* used nationally and other publications used regionally.

She has been a guest lecturer at Rutgers University's Douglass and University Colleges, Fairleigh Dickinson University, and many New Jersey community colleges. She has also hosted two television series in consumer education. Mrs. Matejic has been a frequent speaker at seminars and workshops for professional and community groups on a county, state, and national level. She has also provided training for employees of several industrial corporations.

Mrs. Matejic is a member of the New Jersey Bell Consumer Advisory Panel, the New Jersey Ford Consumer Appeals Board, and a director of the New Jersey Consumers League. She serves as a member of the American Council of Life Insurance Advisory committee, and has been consultant for the New York Stock Exchange, Household Finance Corporation, Gulf Oil Consumer Affairs office, and New Jersey Department of Education—Center for Consumer Education Services. She is a member of the Northeast Extension Publication Committee on Management/Consumer Education. She is a member of the American and New Jersey Home Economics Association, New York Regional Council for Industry-Education Corporation, American Council of Consumer Interests, and Women's Studies Institute of Rutgers University. She has been listed in the 1979 edition of Who's Who in Finance and Industry.

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